

**For:** Cotton State and County Offices, CMA's, and LSA's

**Processing Commodity Certificate Exchanges for Cotton  
With Negative Repayment Values**

**Approved by:** Acting Deputy Administrator, Farm Programs



**1 Overview**

**A**

**Background**

Current policy and software effective for 2001 and prior crop loans permit the loan repayment rate for upland cotton to be calculated as a negative value. For the 2002 and subsequent crops, minimum repayment values will not calculate as negative values.

Existing policy and software provide that an upland cotton loan for which the repayment value is less than zero may be redeemed with cash but **not** exchanged for a commodity certificate.

In the case of a cash loan redemption of negative-valued collateral, CCC issues a payment to the entity repaying the loan for the repayment amount less than zero. Current policy does not permit the same loan collateral to be exchanged for a commodity certificate because such exchange would require CCC to sell commodity certificates at a negative value. There is no legal basis for CCC to price commodity certificates at a negative value.

Notice CN-910 provided the following specific instructions to County Offices about certificates exchanges:

"Low grade upland cotton loans that result in "negative" market gain cannot be processed as a commodity certificate exchange and must be processed as a market loan repayment."

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<p><b>Disposal Date</b></p> <p>January 1, 2003</p>	<p><b>Distribution</b></p> <p>State Offices; State Offices relay to applicable County Offices, CMA's, and LSA's</p>
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## Notice CMA-69

### 1 Overview (Continued)

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#### A

#### Background (Continued)

This policy, although uniformly implemented through County Office software, has not been uniformly administered through the Automated Cotton Reporting System (ACRS). As a result, some commodity certificate exchanges have occurred for 2000 and 2001 crop cotton with negative repayment values. ACRS has not fully processed these transactions although funds were authorized.

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#### B

#### Purpose

This notice provides:

- current policy about commodity certificate exchanges for cotton having a negative loan repayment value
  - procedure for correcting prior commodity certificate exchanges for cotton having a negative repayment value.
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### 2 Policy for Processing Cotton Loans with Negative Repayment Values

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#### A

#### Policy

Loan repayment values for 2001 and prior crop upland cotton are permitted to calculate as a negative value.

Loans for which the repayment value calculates as a negative value:

- can be repaid by cash based on the negative bale value, with the full loan gain subject to payment limitation
- can be exchanged for commodity certificates based on a bale value of **zero**, with the full gain from the transaction not subject to payment limitation
- cannot be exchanged for commodity certificates based on a negative bale value.

Policy and procedures about the minimum loan repayment level for 2002 crop upland cotton loans will be included in a forthcoming notice.

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## Notice CMA-69

### 3 Processing Certificate Exchanges for Negative-Valued Cotton Loan

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#### A

#### Processing Certificate Exchanges

If negative valued cotton loan collateral has been exchanged for a commodity certificate, the transaction shall be processed and recorded as either of the following:

- cash loan redemption based on the negative bale value, with the full loan gain subject to payment limitation
  - commodity certificate exchange, based on a repayment bale value of **zero**, with the full gain from the transaction not subject to payment limitation.
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#### B

#### Collecting Unauthorized Payments

If a commodity certificate was exchanged for loan collateral based on a negative bale value, the value of the loan collateral below zero represents an unauthorized gain.

- CMA's and LSA's will repay excess amounts collected from CCC as a result of negative bale transactions that should not have been processed.
- KCAO, Analysis and Procedures Division, will provide the specific amounts due from CMA and LSA as well as instructions on the exact process for obtaining the manual authorization code for this purpose and the type of transaction.

Such transactions need to be corrected by being processed according to subparagraph A.

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