

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

**Revised Calculations of Upland Cotton Loan Repayment and
Loan Deficiency Payment (LDP) Rates**

Approved by: Deputy Administrator, Farm Programs



1 Overview

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Background

The current method for calculating the loan repayment rate for some low-grade upland cotton allows the adjusted world price (AWP) bale value, after adjustments for quality discounts, to be less than zero.

Following a review of this calculation policy, CCC has established a new policy that shall be effective for upland cotton of all crop years as soon as it can be implemented.

B

Purpose

This notice informs State and County Offices, CMA's, LSA's, and cotton clerks of the method that will be used to calculate upland cotton loan repayment and LDP rates of all crop years as soon as software revisions are available for the Automated Price Support System and Automated Cotton Reporting System.

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| Disposal Date February 1, 2003 | Distribution Cotton State Offices; State Offices relay to applicable County Offices, CMA's, LSA's, and Cotton Clerks |
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2 Policy

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Revised Calculation of Loan Repayment Rate for Upland Cotton

The new policy provides that the:

- **upland cotton loan repayment rate shall not be less than zero**
- **LDP rate shall not exceed the loan value of the cotton.**

Previous policy established the loan repayment rate for a bale of cotton as AWP adjusted by the same premiums, discounts, and location differentials as were applied to the loan rate. For some low quality cotton, this calculation resulted in a negative AWP (repayment) bale value and an additional disbursement by CCC at the time of a cash loan repayment.

Under new CCC policy, the AWP (repayment) bale value of upland cotton shall be AWP adjusted:

- by the value of the same premiums and discounts for quality and location as were applied to the loan rate for the cotton
- for coarse count adjustment (CCA), so long as the adjusted value is no less than zero.

Note: The new policy does not affect the crediting of accrued storage charges during periods when the loan is eligible to be repaid at a reduced rate. Under the new policy, if AWP, adjusted by discounts, is less than the accrued storage credit, there may be a payment by CCC at the time of the loan redemption. This occurs under current software and will continue under the revised software.

B

Revised Calculation of LDP Rate for Cotton

Previous policy established the LDP rate based on the difference between the national average loan rate and AWP, regardless of the loan value of the cotton.

Effective with the availability of revised software, the LDP rate for a bale of upland cotton shall be equal to the gain that would have been received from placing the cotton bale under loan and repaying this loan (the difference between the bale loan rate and the bale repayment rate.)

The resulting LDP rate, including adjustments for CCA, cannot exceed the loan value of the cotton, adjusted for location where stored and for applicable premiums and discounts.

Notice CN-942

3 Loan Repayment and LDP Calculations

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County Office Action

County Offices shall continue using existing software to process cash loan repayments, commodity certificate exchanges for upland cotton loan collateral, and LDP's for all crop years until the revised software is issued.

Upon issuance of the revised software, cash loan repayments, commodity certificate exchanges, and LDP calculations for upland cotton of all crop years shall be based on the revised software.

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CMA and LSA Action

CMA's and LSA's shall immediately develop software to implement the revised minimum loan repayment rate and the revised LDP rate calculations. The implementation of these software revisions shall occur simultaneously with the implementation of the new software at County Offices. CCC shall provide no less than 5 workdays advanced notice to CMA's and LSA's of this implementation date that, as of the date of release of this notice, is expected to be no sooner than October 15, 2002.

CMA's and LSA's shall continue using existing software to process cash loan repayments, commodity certificate exchanges for upland cotton loan collateral, and LDP's for all crop years until notified as to the implementation of the revised software at County Offices.
