

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

**Setting the Electronic Agent Designation (EAD) Status Flag for  
Centralized Cotton Redemption (CCR) of Upland Cotton Loans**

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



**1 Overview**

**A Background**

Under the existing CCR process, County Offices identify an upland cotton loan as eligible for redemption under CCR based on the receipt of a paper or faxed copy of CCC-605. The eligibility for CCR redemption is set by updating the EAD status flag in the Cotton On-line Processing System (COPS) from the default setting of "No" to "Yes."

This process creates administrative burden for County Offices and delays some loan redemptions.

Under new policy established by this notice, County Offices do not need to receive CCC-605 for a loan to set EAD status flag. An individual loan can be identified as eligible for CCR based on producer authorizations provided on revised CCC-Cotton A-5 or CCC-Cotton A.

**B Purpose**

This notice provides:

- new policy for identifying loans as eligible for CCR redemption
- instructions for updating EAD status flag in COPS based on either:
  - CCC-605
  - producer's authorization for CCR redemption provided on the revised CCC-Cotton A-5 or CCC-Cotton A.

<b>Disposal Date</b>	<b>Distribution</b>
October 1, 2006	State Offices; State Offices relay to County Offices, Cotton LSA's, and Cotton Clerks

## Notice CN-990

### 2 Policy/Procedure for Setting the EAD Status Flag for Loans

#### A Producers Authorize Merchant Use of CCR

Producers may choose whether or not to authorize their loan for redemption under the CCR redemption process. The producer option to opt out of CCR was provided for 2004 crop loans and is continued for 2005 crop loans because some producers:

- do not designate agents and, therefore, do not want their cotton included for electronic redemption by merchants
- may not understand the CCR process sufficiently, or are not inclined to hold CCC harmless for using the CCR process.

Currently, the authorization for CCR is established in COPS by setting the EAD status flag to “Yes” from the default setting of “No.” If the status flag is left at “No”, the loan is not approved for CCR redemption and must be redeemed either by the producer or his agent at the County Office.

#### B Revised Process for Setting the EAD Status Flag

Under the initial 2004 crop process for setting a loan EAD status flag, County Offices waited until they received a copy of CCC-605 (usually faxed by the producer’s agent) before setting the EAD status flag in COPS to “Yes.”

Starting with loans processed using revised CCC-Cotton A-5 or CCC-Cotton A, County Offices will be able to set EAD status flag to either “Yes” or “No” for a loan at the time the loan is entered into APSS and **without receipt of CCC-605**, based on the producer’s response on the revised CCC-Cotton A-5, Item 21 that asks, “Do you agree that any agent you authorize to redeem this loan may use the automated EAD redemption process?”.

CCC-Cotton A-5 and CCC-Cotton A are currently being revised with the intention they will be available by September 30, 2005. A separate notice will be provided to announce the availability of the revised CCC-Cotton A-5 or CCC-Cotton A.

This revised process will be fully available when:

- CCC-Cotton A-5 or CCC-Cotton A are revised
- APSS software is revised to include an entry for EAD status flag to be set and transmitted to COPS.

## Notice CN-990

### 2 Policy/Procedure for Setting the EAD Status Flag for Loans (Continued)

#### B Revised Process for Setting the EAD Status Flag (Continued)

County Offices shall initially set EAD status flag for the loan based on the response received on the CCC Cotton A-5.

The revised version of CCC Cotton A provides the same question because all persons sharing in the loan have the authority to determine EAD authorization. It is possible, but not expected, that the answer to this item on CCC-Cotton A may be different from the response entered on the CCC-Cotton A-5.

In the event that different answers are provided, the EAD status indicator must conform to the response indicated on **CCC-Cotton A**, because it is signed by all persons sharing in the loan and will be the latest producer response.

The revised CCC-Cotton A provides for 1 response to this question although more than 1 person may sign. Each signator of the note is not provided a separate space to provide their own individual response. If 1 of the note signators elects to respond "No", then the loan EAD status flag must be set to "No."

#### C APSS Revision to Provide Further Improvement

Currently, the EAD status flag can only be set in COPS after the loan is processed into COPS; that is usually about 5 workdays after entry into APSS.

An upcoming revision to APSS will allow EAD status flag to be set in APSS when the loan is originally entered. APSS will be revised to include the question, "Are these bales covered by EAD?" County Offices will answer this according to the response provided by the producer on CCC-Cotton A-5, Item 21 or on CCC-Cotton A, as follows:

- a "Yes" to this question on either CCC-Cotton A-5 or CCC-Cotton A authorizes the County Office to set EAD status flag to "Yes" in the revised APSS
- a "No" to this question on either CCC-Cotton A-5 or CCC-Cotton A authorizes the County Office to set EAD status flag to "No" in the revised APSS.

**Note:** The revision to APSS will **not** occur until late October 2005, at the earliest. Until that revision the EAD status flag **must** be set in COPS once the loan is established, which takes 3 to 5 workdays after disbursement in APSS.

## Notice CN-990

### 2 Policy/Procedure for Setting the EAD Status Flag for Loans (Continued)

#### D Setting EAD Flags in Cotton On-line Processing System (COPS)

County Offices shall continue to update EAD indicators in COPS using the web-based “EAD Status” option:

- when designated agents send a copy of CCC-605 as the basis for setting EAD status flag
- when producer authorizes CCR on CCC-Cotton A-5, but indicates a response of “N” on CCC-Cotton A question, “Are these bales covered EAD?”
- for all 2004 crop year loans
- for 2005 loans disbursed using CCC-Cotton A dated 9-02-04.

#### E Explaining CCR to Producers

Use **Exhibit 1** to explain CCR and the use of the “Electronic-605” or EAD to producers. County Offices should encourage producers to authorize use of CCR because of the efficiencies generated for both merchants and County Office staff.

#### F LSA Use of Revised Cotton Forms

Loans processed by LSA’s are initially processed and subsequently redeemed using ACRS rather than the CCR process. The ACRS loan redemption process makes no use of any EAD record that might be established.

LSA’s are authorized to:

- continue to use current versions of CCC-Cotton A-5 and CCC-Cotton A, because the producer authorization that may be granted by a “Yes” answer to the question add on revised CCC-Cotton A-5’s and CCC-Cotton A’s is not used within the LSA loan redemption process
- use revised CCC-Cotton A-5’s and CCC-Cotton A’s.

Producers whose loans are processed through ACRS by LSA and who sign CCC-Cotton A-5 and CCC-Cotton A dated 9-30-05 should, therefore, respond “No” to the question on each of those forms, “Do you agree that any agent you authorize to redeem this loan may use the automated EAD redemption process? YES NO”.

## Notice CN-990

### 2 Policy/Procedure for Setting the EAD Status Flag for Loans (Continued)

#### G Loans Provided Before This Change

CCC loans provided under previous versions of CCC-Cotton A are eligible for redemption under CCR if the County Office:

- received a copy of CCC-605
- set the EAD status flag for the loan to “Yes”.

**Note:** Producers with loans provided under previous versions of CCC-Cotton A do not need to take any action because the revised procedure affects setting the flag for new loans.

For loans disbursed before this revised procedure, County Offices must still set the EAD status flag based on receipt of a copy of CCC-605.

### 3 Using EAD and Paper CCC-605

#### A Using EAD

EAD is used to determine the current agent approved to redeem loan cotton by:

- County Offices if a redemption request is made at the County Office without presentation of a paper CCC-605.
- CCR process.

## Notice CN-990

### 3 Use of EAD and Paper CCC-605 (Continued)

#### B Using Paper CCC-605

Producers are still required to complete CCC-605 to identify and authorize any agent to redeem their loan cotton, regardless of how or where the loan is redeemed. CCC-605 **must** still be completed even if the merchant intends to redeem using the CCR process.

Using CCR or the creation of EAD record by a gin or warehouse does **not** affect the current power of attorney requirements or provisions about the use of FSA-211.

The paper CCC-605 continues to be used by:

- designated agents who:
  - retain the original if they create the first EAD record
  - send a copy to County Office as the basis for setting EAD status flag in COPS (except for loans processed based on revised forms whereby EAD flags can be set in APSS when the loan is processed )
  - do not use CCR and submit the paper CCC-605 with loan redemption requests made at County Office
- County Offices to:
  - set EAD status flag for loans (unless the flag is set in APSS based on authorization provided by the revised CCC-Cotton A-5 and CCC-Cotton A)
  - to process redemptions requested at the County Office.

**Centralized Cotton Redemptions (CCR) Fact Sheet**

The following is a fact sheet on using an electronic agent designation for CCR.

**Using an Electronic Agent Designation for Centralized Cotton Loan Redemptions****Use of CCR Process**

CCR is an electronic process used by producers' agents to redeem cotton from loan. Producers' agents using CCR are able to redeem bales from multiple loans under one redemption request through Kansas City instead of sending redemption documents to each County Office. This centralized process significantly simplifies redemptions, eliminates paper, speeds the release of cotton for shipment, and reduces administrative costs for both merchants and CCC.

CCR became fully functional for the 2004 crop of upland cotton. Merchants may now choose to redeem loan cotton using either CCR or the conventional County Office redemption process.

**Use of CCC-605 (Paper copy) under CCR**

Producers who elect to identify and authorize an agent to redeem a cotton loan obligation must still use the paper copy of CCC-605, Designation of Agent-Cotton. The paper CCC-605 is the only document that validates the initial creation of the Electronic Agent Designation used in the CCR process.

This paper document must be presented by the producer to the producer's agent. For the producer's agent to redeem loan cotton covered by a CCC-605, CCC must be informed of the agent designation in one of the following manners:

Redemption at County Office: If an agent elects to redeem the loan cotton at the County Office, at the time of the redemption request, the agent may either:

- present the paper CCC-605 at the County office
- not present the CCC-605 to the County Office, but be established as the EAD at time of the redemption request.

Redemptions Through CCR: If an agent elects to redeem the loan cotton through CCR, the paper copy of the CCC-605 is retained by the entity that created the initial EAD record for the loan. The paper copy is not required to be submitted to any County Office.

**Creation of "Electronic-605" or Electronic Agent Designation**

The CCR loan redemption process is available only for cotton electronic warehouse receipts (EWR's) that identify the agent authorized to redeem the cotton. The electronic record identifying the agent is referred to as the Electronic-605 or Electronic Agent Designation (EAD).

**Centralized Cotton Redemptions (CCR) Fact Sheet (Continued)****Creation of “Electronic-605” or Electronic Agent Designation (Continued)**

For EWR’s to reflect this information, the producer must first execute an original (paper) CCC-605, Authorization of Electronic Agent and Designation of Agent – Cotton. That authorization is added to the EWR by the individual or entity that transfers holdership of the EWR’s to CCC for loan. Usually, that is the gin or warehouse.

The establishment of the EAD and its attachment to the EWR occurs in accordance with the requirements of the EWR Provider. EWR providers establish protocols regarding authentication, system access, and formats and procedures for records creation and transmittals.

**Recording Authorizations for Subsequent Agents**

Producers’ agents who sell their loan-redemption authority to a subsequent agent must send notice of that transfer to the EWR Provider who updates the EAD file information. This change of agent on the EWR has become the basis of such “equity” sales between merchants. Thus, at the time a loan is redeemed, the EAD record on a EWR identifies the merchant currently approved to redeem the bale.

The paper copy of the CCC-605 that is signed by the producer is retained by the individual or entity that creates the initial EAD record. This paper document is retained for the purpose of resolving any disputes that may arise.

**Producer Authorizations**

Producers authorize use of the CCR process by any agent they may designate when signing a loan request (CCC-Cotton A-5), the loan Note and Security Agreement (CCC Cotton A), or CCC-605 for their loan.

To further streamline the CCR loan redemption process, the Note and Security Agreement (form CCC-Cotton A dated September 30, 2005) has been revised to contain these same authorizations. These authorizations apply only if the producer subsequently authorizes an agent to redeem the loan collateral.

This change relieves agents of sending a copy of the paper CCC-605 to the County Office and permits the County Office to establish the loan as eligible for CCR at the time it is originally processed. If the agent of the producer elects to redeem the cotton at the County Office rather than through CCR, the County Office determines the agent’s authorization to redeem the loan from the EAD record.

If no EAD record has been established by the gin or warehouse, or if the producer has stipulated that the loan must be redeemed only in the County Office, then the CCR process cannot be used by the producer’s agent. In such cases, the County Office redemption requires presentation of a paper CCC-605 by the producer’s agent or subsequent agent.

**Centralized Cotton Redemptions (CCR) Fact Sheet (Continued)****Producer Authorizations (Continued)**

This streamlined process is established by including the following language on the revised version the cotton loan note:

For all bales of the loan specified in this Note that are represented by an electronic warehouse receipt (EWR), the undersigned producer hereby: 1) acknowledges having exclusive authority to authorize and designate an entity to transfer holdership of EWR's to the Commodity Credit Corporation (CCC); 2) authorizes the person or entity that transfers holdership of EWR's to CCC for loan, in accordance with requirements of the EWR provider, to: (a) establish at the direction of the producer an Electronic Agent Designation (EAD) for the loan cotton as identified on CCC-605, Designation of Agent, and (b) identify the loan cotton eligible for electronic redemption; 3) agrees that the designated agent, or any subsequent agent, identified by form CCC-605 or by the agent field of the EWR is authorized to repay the CCC loan obligation of the cotton; 4) requests and authorizes CCC to accept repayment from, and release loan collateral of this note to, the individual or entity identified in the agent field of the EWR for the bales; 5) agrees to hold CCC harmless for any errors that may result from reliance on the information supplied by the producer, producer's agent, or subsequent agent through the EWR or otherwise; and, 6) acknowledges that this loan may be removed from the EAD redemption process by specific request to the FSA.

**Producer's Option to Deny Use of CCR Process**

Producers may decide whether their loan obligation can be redeemed using CCR. This option is provided because some producers do not authorize agents to redeem their cotton, and therefore do not want their loan entered into an automated system designed primarily for redemptions by agents. Additionally, some producers simply do not want to participate in an unfamiliar process.

Producers may elect to "Opt-Out" of this redemption process at any time. To opt out when the loan is originally processed, the loan applicant simply enters a check mark (✓) in the "No" box in response to the following question on the Cotton-A: Do you agree that any agent you authorize to redeem this loan may use the automated EAD redemption process?

CCC-605's, and the producer's authorization for an agent to use the CCR process, may be cancelled by producers. The cancellation of a CCC-605 or the "Opt-out" from the CCR process may be requested at any time before redemption of the loan by providing a written request to the County Office.

**Loans Provided Before This Change**

CCC loans provided under previous versions of the note and security agreement are eligible for redemption under CCR if:

- the EAD record was established for the loan
- the County Office received a copy of the CCC-605 so that the loan was flagged as eligible for redemption under CCR. Producers with such loans do not need to take any action because of this revised procedure affecting new loans.

**Centralized Cotton Redemptions (CCR) Fact Sheet (Continued)****Summary**

- CCR is an electronic process used by producers' agents to redeem cotton from loan.
- The requirement for producers to use the paper CCC-605 to designate agents is unchanged.
- Agents may redeem cotton either at the County Office by presenting the paper CCC-605, by being the EAD at time of the redemption request, or using the CCR process.
- County Offices may identify loans as eligible for CCR redemption based on receipt of paper CCC-605 or by producer authorization noted on revised CCC Cotton A-5 or CCC Cotton-A.