

For: Tobacco State and County Offices

Determining the Tobacco Transition Payment Program (TTPP) Discount Rate

Approved by: Deputy Administrator, Management



1 Overview

A Background

TTPP was authorized by the Fair and Equitable Tobacco Reform Act of 2004 (the 2004 Act), signed by the President on October 22, 2004. TTPP terminates the new deal-era tobacco quota program and establishes a 10-year transitional payment program funded through assessments of approximately \$10 billion on domestic manufacturers of tobacco products and importers of foreign tobacco.

Producers and quota holders of tobacco may assign their right to their annual payments to another party under the regulations at 7 CFR Section 1463.111. However, the 2004 Act requires assignees of TTPP payments to provide the assignor an amount equal to or greater than the discounted value of the payments subject to the assignment. The maximum discount rate allowed is the prime rate in effect on the first day on the month plus 2 percentage points, rounded to the nearest whole number.

TTPP payments are eligible for assignment and can be recorded according to instructions in Notice FI-2683.

B Purpose

This notice provides tobacco State and County Offices with:

- the TTPP discount rate for April 2005
- instructions for accepting assignments of TTPP from producers and quota holders
- instructions about the process for determining the discount rate as it applies to assignments of TTPP payments.

<p>Disposal Date April 1, 2006</p>	<p>Distribution Tobacco State Offices; State Offices relay to applicable County Offices</p>
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Notice FI-2690

2 Definitions

A TTPP Definitions

Prime Rate. Prime rate is the interest rate charged by banks to their most creditworthy customers (usually the most prominent and stable business customers). The rate is almost always the same amongst major banks. Adjustments to the prime rate are made by banks at the same time; although, the prime rate does not adjust on any regular basis.

Discount Rate. The allowable discount rate for TTPP payments is the prime rate announced for the month plus 2 percentage points, rounded to the nearest whole number.

3 TTPP Discount Rate for April 2005

A TTPP Discount Rate

The TTPP discount rate for April 2005 is equal to 8 percent. The prime rate on April 1, 2005, was 5.75 percent. The discount rate is computed by adding 2 percentage points to 5.75 and rounding to the nearest whole number.

4 County Office Action

A Obtaining the Prime Rate

Each month the Controller, CCC, will announce the prime rate that will be in effect for the month in the same FI series notice that announces the CCC and program interest rates. These notices will be permanently incorporated into 50-FI in semiannual updates to the handbook. Use this monthly notice to determine the applicable discount rate.

The prime rate is published at <http://www.federalreserve.gov/releases/h15/update/>. Scroll down the page and find the “Bank Prime Loan” rate line. The applicable prime rate is published on the first day of every month; any subsequent changes during the month are not valid.

B Computing the Discount Rate

The applicable discount rate is computed by adding 2 percentage points to the prime rate determined in subparagraph A, and rounding it to the nearest whole number. The following are examples of discount rates.

IF the prime rate is...	THEN the discount rate is...
5.75 percent	8.0 percent (5.75 plus 2.0, rounds to 8.0).
5.25 percent	7.0 percent (5.25 plus 2.0, rounds to 7.0).
5.50 percent	8.0 percent (5.50 plus 2.0, rounds to 8.0).

Note: Round 0.50 up to the nearest whole number.

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4 County Office Action (Continued)

C Accepting an Assignment

When a producer or quota holder provides the County Office with CCC-959, the County Office shall review the information provided to determine that:

- CCC-959 has been properly completed and all necessary information has been provided
- both the assignee and assignor certify compliance with the regulations at 7 CFR Section 1463.111 (d) (1).

Note: If both items are acceptable, process the assignment according to instructions provided in Notice FI-2683.

D Valid Assignments and Spot Check Procedures

A valid assignment must comply with the regulation that requires the producer or quota holder to receive an amount equal to or greater than the computed amount after applying the applicable discount rate as computed in subparagraph B. An Excel spreadsheet is being developed that can be used to determine whether the lump sum offer meets or exceeds minimum requirements.

Spot check procedures will be issued in a forthcoming notice to determine whether the consideration for the assignment meets or exceeds minimum requirements.