

For: State and County Offices

Commodity Certificate Exchange Questions and Answers

Approved by: Acting Deputy Administrator, Farm Programs



1 Overview

**A
Background**

Notice LP-1723 provided policies and procedures for commodity certificate exchanges on loan collateral. On February 16, 2000, several questions were raised during conference calls held with State Offices. This notice provides additional information on the commodity certificate exchange.

**B
Purpose**

Paragraph 2 provides State and County Offices with policy and procedure clarification in a question and answer format on the following topics:

- eligible producers
- IRS reporting
- lock-in repayment rates on CCC-697
- CCC-681-1 and CCC-685 applicable to commodity certificate exchanges
- processing considerations.

Disposal Date	Distribution
October 1, 2000	State Offices; State Offices relay to County Offices

2 Questions and Answers

**A
Eligible
Producers**

Are producers who have not filed CCC-502 eligible to exchange commodity certificates for loan collateral?

Producers who are otherwise eligible for a nonrecourse marketing assistance loan and have such a loan outstanding that is not past maturity, may purchase commodity certificates to exchange for the loan collateral. CCC-502's are only required before a producer repays a loan as a cash marketing loan repayment or receives an LDP, according to 8-LP, subparagraph 104 A.

Are producers who have filed CCC-502's and have permitted entity shares or percent of cropland factors less than 1.00, eligible to exchange commodity certificates for loan collateral?

Yes. Their permitted entity shares and percent of cropland factors have **no** impact on their commodity certificate exchange for loan collateral.

Can producers repledge loan collateral that has been exchanged with a commodity certificate?

No. For this purpose, the loan collateral exchanged with a commodity certificate is not eligible to be repledged.

Can producers purchase commodity certificates and exchange loan collateral for 1998 crop loans?

Yes. A producer can purchase commodity certificates and exchange loan collateral for any outstanding loan that has not matured regardless of crop year.

If a producer is denied an LDP because the maximum payment limitation was reached and if the producer still maintains beneficial interest in the commodity, can the producer:

- **request a commodity loan**
- **purchase commodity certificates**
- **exchange the commodity certificate for the loan collateral?**

Yes. As long as the loan is requested by the final loan availability date and the loan has been disbursed, a commodity certificate exchange may be requested.

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2 Questions and Answers (Continued)

B

IRS Reporting

Are commodity certificate exchanges reportable by FSA to IRS? If not, will this encourage producers to request commodity certificate exchanges for loan collateral?

The commodity certificate exchange for loan collateral will not be reported by FSA to IRS on CCC-1099. The tax considerations for the producer remain the same as for other repayments on a commodity loan. FSA will be meeting with IRS to inform them of the exchange transaction and the documentation that producers will have available to document the transaction.

Since the use of the commodity certificates is to avoid forfeitures, there is no limitation on who may request a commodity certificate on an outstanding loan.

C

CCC-697

Why can't a producer be allowed to cancel a current CCC-697 so that the loan collateral may be exchanged using commodity certificates?

The lock-in on CCC-697 is for the lesser of 60 days or 14 days before loan maturity. The lock-in will:

- eventually expire
- provide producers an opportunity to exchange the loan collateral for commodity certificates.

At this time, FSA does not want to change any policies or procedures concerning the use of CCC-697.

D

CCC-681-1 and CCC-685

How will commodity certificate exchanges be handled for repayments made using CCC-681-1 and CCC-685?

When a repayment is received from a buyer designated on either CCC-681-1 or CCC-685 and there is no lock-in repayment rate in effect on CCC-697, the date the repayment is received in the County Office will be the effective date to determine the exchange rate for the commodity certificate exchange. Before the transaction can be completed, County Offices must obtain the producer's signature on CCC-681-1A.

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2 Questions and Answers (Continued)

E

Processing
Considerations

Can CCC-676 be posted to BBS with the changes provided in Notice LP-1723?

We do not plan to post CCC-676 to BBS. CCC-676 is a register that is needed only until the software has been modified for recording commodity certificate loan exchanges. Once the software has been modified, the use of CCC-676 will no longer be required.

Do we have to issue a commodity certificate to repay each loan or can 1 commodity certificate repay multiple loans?

Only one CCC-681-1A is needed to exchange loan collateral for multiple loans. Multiple unique commodity certificate transaction ID numbers may be entered on CCC-681-1A, item 11.

Will producers be allowed to obtain a loan and make a commodity certificate exchange for that loan collateral on the same day?

Not unless all necessary lien searches and lien waivers are obtained and the loan is disbursed. A loan request is not considered an outstanding loan until the loan has actually been disbursed.

What is the CCC-determined value?

The CCC-determined value is the posted county price adjusted for premiums and discounts, as applicable. Calculate the CCC-determined value on CCC-694-1, page 1.

Can producers purchase a commodity certificate to exchange for CCC-owned inventories?

No. Commodity certificates may only be exchanged for outstanding loan collateral.

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2 Questions and Answers (Continued)

E
Processing
Considerations
(Continued)

How will County Offices handle both a marketing loan repayment and a commodity certificate exchange when only 1 check is received from the producer?

If a producer wishes to pay off a commodity loan and purchase a commodity certificate for another or same commodity loan and only has a single check to provide to CCC, process the actions according to the following table.

Step	Action
1	Calculate the total amount of funds needed to pay off the loan, purchase the desire commodity certificate, and obtain a check from the producer for that total amount.
2	Record the loan repayment as normal depositing the producer's check for the full amount. When the record is passed to Cash Receipts, the amount of the check that is above what is needed to satisfy the loan will be refunded to the producer using program code REFREP.
3	Use the REFREP check to purchase the commodity certificate and record it on the manual CCC-257 according to instructions in this notice.
