

### **Cotton Loan Forfeiture Charges/Procedures for ELS (Pima) Cotton**

Due to the current economic and price environment for both Pima and upland cotton, there has been increased focus on the likelihood of loan forfeitures as the non-recourse loans mature in the coming months. Recall, as part of COVID relief legislation earlier this year, the 9-month term of USDA non-recourse loans was extended to a 12-month term for any cotton placed in loan by September 30 of this year. After that date, absent any legislative change, the term for any future loans will be 9 months.

**Based on recent discussions with USDA officials, there are important clarifications on the charges or fees a producer is responsible for when warehouse-stored Pima cotton is forfeited to USDA. In general, the calculations on cotton forfeiture charges are the same for both Pima and upland cotton. If Pima cotton is forfeited to USDA, the producer is only responsible for paying the difference in the Cotton Storage Agreement (CSA) storage rate for the warehouse and the USDA storage credit for the time the cotton is under loan, not the full storage costs for the time the cotton is under loan. For anytime the cotton is NOT under loan, the producer is responsible for paying the full warehouse storage rate.**

Below is a detailed summary of the charges.

The producer will be billed and will pay to CCC any unpaid warehouse charges for upland and ELS cotton that is forfeited to CCC in satisfaction of the loan obligation. These charges include:

- Storage that accrued **before** the date all documentation required from the producer for the loan were received
- Any charges for storage during the term of the loan represented by the **difference** between the Cotton Storage Agreement rate for loan cotton and the rate established by CCC for storage credits
  - Storage credits are provided based on the lower of the following:
    - Submitted warehouse tariff rate for the year
    - Warehouse 2006 tariff rate
    - Maximum storage credit rates for crop year 2020:
      - \$3.933 per bale/month for California and Arizona
      - \$2.394 per bale/month for all other States where stored
- ***Note:** In some cases, the difference between the CCC loan storage rate and the maximum CCC storage credit can be “zero” if the storage credit is equal to or greater than the loan storage rate.*
- Accrued warehouse storage charges for any pre-loan period up to the “storage start date” for the loan
- Any unpaid warehouse receiving charges including charges for new ties
- Any other charges added by the warehouse that reduce the value of the cotton delivered to CCC

In a recent clarification from USDA, producers are not billed for any unpaid compression charges. Those charges are to be paid by the buyer of the forfeited cotton.