

## **Cotton Loan Charges and Transfers of Loan Cotton**

---

In late summer 2006, the Commodity Credit Corporation made several changes in the operation of the cotton loan program.

- Cotton that is under loan to CCC may be transferred from one approved warehouse to another;
- CCC created maximum monthly storage-credits as follows:
  - The lower of –
    - the warehouses' 2005 tariff rate; or
    - \$4.37 per bale for Arizona and California; or
    - \$2.66 per bale for all other States where cotton is stored.
- Producers will be responsible for unpaid warehouse compression charges on forfeiture.

Producers should be aware of how these changes will affect their cotton placed under CCC loan.

### ***Maximum Storage Credit***

As a result of the CCC imposing a maximum storage credit, two new situations arise when the Adjusted World Price (AWP) is below the CCC loan rate. Shippers of redeemed cotton will face charges for any difference between the tariff rate and maximum storage credit. The difference between the warehouse's Cotton Storage Agreement (CSA) rate and maximum storage credit will be for the account of the producer in the case of forfeiture.

### ***Transfer of cotton under loan.***

1. CCC has amended the Form CCC-605 to enable a producer to authorize a merchant to transfer loan cotton from one warehouse to another;
2. CCC regulations state that the person requesting the transfer of the cotton will be responsible for all additional charges associated with the transfer;
3. Transfer of cotton will occur as follows:
  - a. Producer signs Form-605 including sections that authorize the merchant to transfer cotton
  - b. Merchant initiates transfer procedure with CCC and the shipping and receiving warehouses
  - c. Merchant pays storage, compression, load-out, and receiving charges applicable to the transferred cotton to the shipping (original) warehouse
  - d. Cotton is transferred to receiving warehouse
  - e. CCC will authorize storage credit at receiving warehouse for maximum of 75 days<sup>†</sup>
4. Once transferred, there may be different charges applicable depending upon whether the cotton is redeemed or forfeited. The following table tracks applicable warehouse charges through the transfer process:

Transfer of Cotton – Impact on Applicable Charges			
	Merchant	CCC	Producer
Transfer	Pays to shipping warehouse -- <ul style="list-style-type: none"> <li>• Pre-loan storage</li> <li>• Storage while under loan</li> <li>• Load-out</li> <li>• Unpaid receiving</li> <li>• Compression</li> </ul> Pays transportation to receiving warehouse	<ul style="list-style-type: none"> <li>• Nothing</li> </ul>	<ul style="list-style-type: none"> <li>• Nothing (unless producer is requestor of transfer, then will be responsible for charges under merchant heading)</li> </ul>
Redemption	Pays to CCC - <ul style="list-style-type: none"> <li>• Loan repayment <u>less</u> storage credit at shipping warehouse's rate</li> </ul> Pays to Receiving Warehouse <ul style="list-style-type: none"> <li>• Unpaid receiving charges</li> <li>• Unpaid compression</li> <li>• Storage for period at receiving warehouse</li> </ul>	<ul style="list-style-type: none"> <li>• Receives loan repayment less storage credit rate applicable to shipping warehouse calculated for term of loan in shipping warehouse and for period at receiving warehouse, subject to 75 limit<sup>†</sup></li> </ul>	<ul style="list-style-type: none"> <li>• Nothing (unless producer is redeemer)</li> </ul>
Forfeiture	May Indemnify Producer for: <ul style="list-style-type: none"> <li>• Any excess costs due to transfer</li> </ul> Excess costs = <ul style="list-style-type: none"> <li>• diff. in excess storage amount if any (shipping vs. receiving warehouse)</li> <li>• diff. in compression (if any)</li> <li>• diff. in receiving (if any)</li> </ul>	<ul style="list-style-type: none"> <li>• Pays receiving warehouse all charges that accrued before forfeiture, including receiving and storage for time cotton in receiving warehouse (but not compression)</li> <li>• Storage based on CSA contract rate for receiving warehouse</li> </ul>	Billed for: <ul style="list-style-type: none"> <li>• Excess storage for time loan cotton in receiving warehouse &amp; unpaid compression &amp; receiving</li> <li>• Excess storage = difference between CSA rate and max. storage credit rate</li> </ul>

**Compression:** In the event of forfeiture, CCC will bill the producer for unpaid compression, but will not pay compression to the warehouse. Instead, CCC will sell the cotton at a price reduced by the compression charge and the buyer will be responsible for paying compression to the warehouse.

**Loan settlement:** On redemption, CCC will settle the obligation of the loan based on the original loan terms and credits and charges applicable to the shipping warehouse.

**Responsibility for Excess Costs associated with transfer and subsequent forfeiture of loan cotton:** Merchants transferring cotton are unlikely to allow the cotton to be forfeited. However, if transferred cotton is forfeited, there may be increased costs on forfeiture resulting from different tariff levels and charges at the receiving warehouse. CCC-605 will be amended to provide that requestor is responsible for any additional charges stemming from transfer. Producers may wish to ensure their option to purchase contracts contain a clause similar to the following:

*Producer agrees to execute the necessary authorizations to enable Purchaser to transfer the cotton covered by this option to purchase agreement from one CCC-approved warehouse to another while the cotton is pledged as collateral for a CCC marketing assistance loan. If Purchaser requests such a transfer, Purchaser will pay all charges incident to the transfer, including indemnifying and holding Producer harmless for any fees, charges, costs, or expenses that may accrue to the Producer in excess of those that would have accrued to the Producer had the cotton not been transferred.*

<sup>†</sup> The 75-day limit is not applicable to cotton transferred due to a warehouse's failure to meet applicable standards (i.e., shipping standard; outside storage, etc.).