CCC LOANS IN THE ELECTRONIC RECEIPT ENVIRONMENT

Joseph T. Wyrick
EWR, Inc.
Memphis, TN

Abstract

The acceptance of electronic warehouse receipts by USDA has significantly reduced the time required for a producer to receive his CCC loan and the time required for cotton to be redeemed from the loan.

Discussion

During the past two harvest seasons the cotton industry has begun to embrace the concept of electronic warehouse receipts. Simply stated, an electronic receipt is a computer record of all the information required on a legal paper receipt. That data record is stored in a secure computer system. This system must be approved by the U.S. Department of Agriculture as meeting specific operating standards. Electronic receipts are authorized by federal legislation and are legally equivalent in every way to paper receipts.

The entity which operates the computer system on which electronic receipts are stored in called a *Provider.* Within the Provider's computer, each receipt record is associated with the party - the *holder* - who has access to that receipt record. Only the holder can transfer his electronic receipts to another holder.

Prior to the availability of electronic receipts, only paper receipts were available for a producer who wanted to place his cotton in the CCC loan. The process is one with which I am sure that most of people are familiar.

The producer would leave his paper receipts to the county office where the USDA staff would prepare the necessary loan forms. This preparation time was assumed by USDA to require, on the average, about one week. Of course, the actual time could vary tremendously depending upon workload at the county office. Once the paperwork was completed, the producer would come back to the county office where he would receive his loan check.

With the introduction of classing diskettes from AMS, the county office was able to reduce the time required to prepare a loan with paper receipts to as little as 3 or 4 days. Again, this average varied quite a bit depending upon the particular circumstances of the county office.

A number of problems exist when making loans with paper. First, there are the usual problems associated with handling any paper document - the possibility of damage to the document and the slow movement of paper. In addition, card readers used by USDA to read paper receipts often become misaligned causing data to be read improperly from the card. The card readers also break down which slows the process of loan-making since the receipt information has to be hand-punched into the USDA computers. If a paper receipt is misplaced there is no way to "track it down." Another very significant problem is that, with paper receipts, the first priority during the loan season is making loans because it often takes so long to make these loans and the goal is to pay the grower as quickly as possible. Redeeming the cotton always is given second priority and usually takes the maximum 6 days allowed by law, especially if redemption is of specific bales rather than all of the bales in a loan.

During the 1995-96 harvest season electronic receipts were used for the first time in the industry. This included being accepted by USDA for CCC loans. During this first year USDA used an electronic bulletin board-type system called "Elite." It allowed xmodem transfers of receipt data over regular phone lines between CCC and the providers.

To everyone's surprise, the popularity of electronic receipts soared that first season. Nearly 2.2 million electronic receipts were sent to CCC.

The Elite system took 2 to 3 days to process a loan on the average rather than a week. Elite also definitely sped up the process of redemption. And electronic receipts did provide immediate printouts of receipt information to the producer.

For the 1996-97 harvest season a new system was put in place which uses a high-speed, high-volume phone linkage called ISDN. The system became operative in early September, 1996, and, following four months of daily usage, this system has proven to be both stable and to function well. The system was designed by the staffs of USDA and the providers who labored together to achieve a much improved system.

The system now allows county offices to inquire on behalf of producers as to the loan status of any receipt. The high volume of receipt transfer was taken into account by this system and, by mid-December, 1996, EWR, Inc. itself had sent over 2 1/2 million receipt to USDA for the CCC loan. Furthermore, new reporting mechanisms put in place immediately tell the provider and CCC whether a file has been successfully transferred before the receipts are even processed.

Under this current loan system funds are dispersed typically to the producer within one day although circumstances can cause two days to be normal. Likewise, normally the

redemption of cotton can be accomplished now within 1 to 2 days.

From the perspective of a provider, the current system can be improved by additional education of users who are still becoming familiar with handling electronic receipts. For one thing, it is important that users who send receipt data to USDA be certain that they have all of the correct information. CCC loan acceptance requires more information than a legal warehouse receipt requires. For example, producer name must be given to CCC but is not required on a receipt. Users must be aware of what information that CCC requires and must know how to be sure it is on their electronic receipt before they send it to USDA.

Another provider concern is processing expectations. The electronic system is fast and much faster than paper. But it is not immediate. People must realize that two days is not an unreasonable amount of time to wait to have a loan processed and that - even with computer - it simply can take that long, especially during busy times of the year.

Looking to the future, CCC certainly will be encouraging producers to use electronic receipts because it increases efficiency so much.

Other things being considered include CCC accepting electronic block receipts for the loan. And CCC may revisit some of its data requirements, eliminating outdated information requirements while perhaps adding some new ones.

Will CCC require electronic receipts? At present, no such intention has been expressed. So, it appears unlikely in the immediate future. However, as industry acceptance of electronic receipts grow and as provider systems prove to be stable, CCC will probably move with the industry.