

November 2018

Seed Cotton Recourse Loans for Upland and Extra Long Staple (ELS) Cotton

OVERVIEW

USDA's Commodity Credit Corporation (CCC) marketing assistance loans (MAL) are a marketing tool producers can use to store their production after harvest, which increases their marketing opportunities. Eligible producers of seed cotton may obtain a recourse seed cotton loan at the County Office that keeps the records for the farm.

Seed cotton recourse loans help provide upland and ELS cotton producers meet cash flow needs without having to sell their commodities when market prices are typically at harvest-time lows. Recourse loans also allow producers to store production at harvest and provides for a more orderly marketing of cotton throughout the year.

Seed cotton loans are considered recourse loans because the loan can only be redeemed by cash repayment, and the loan collateral is ineligible to be delivered to CCC. Seed cotton loans are also ineligible for commodity certificate exchanges and loan deficiency payments (LDPs).

This fact sheet explains eligibility requirements, loan terms, and loan rates for seed cotton recourse loans.

ELIGIBILITY REQUIREMENTS

Producer Eligibility

To be eligible for a seed cotton recourse loan, the producer must:

- Complete a CCC Cotton A-5 form to request a seed cotton loan
- Comply with conservation and wetland protection requirements;
- Submit an acreage report to account for all cropland on all farms;
- Have and retain beneficial interest in the commodity until the loan is repaid.

For approved cotton cooperatives, the producer member must:

- Meet the eligible requirements listed above
- Give the cooperative, through a marketing agreement, authority to pledge the cotton for loan.

Commodity Eligibility

To be eligible for a seed cotton recourse loan, the cotton must be:

- Mechanically harvested, but **not** ginned, and still in a module form

- In storable condition
- Merchantable for fiber or other uses, as determined by CCC, and
- Stored in a manner to adequately protect it from loss or damage
- Located within a reasonable distance from an approved gin (approved warehouse will be considered approved storage)
- Available at all time to both the producer or producer's agent **and** a County Office representative
- Insured at the full loan value against damage by fire - additional insurance may be required for losses of wind, flood, and rising water.

The producer is responsible for any loss in quality or quantity of the seed cotton under loan. If the cotton is insured at the market price, loans may only be approved if market price is more than the loan value. If the insurance policy has a deductible clause, the loan amount will be reduced by the deductible amount.

SEED COTTON RECOURSE LOANS

Loan Availability and Maturity Dates

Seed cotton loans are available from harvest through **March 31** following the year after the cotton was planted.

All seed cotton loans are due the **earlier** of:

- May 31 of the year after the calendar year the cotton was planted
- Before May 31, if CCC demands payment to conform to State or local quarantine regulations or for other reasons.

Loan Rates

The loan rate used for seed cotton loans is the base quality loan rate, as follows:

- \$0.52 per pound for 2018 upland seed cotton
- \$0.7977 per pound for 2018 ELS seed cotton.

Loan premiums and discounts are not applicable to seed cotton loans.

Interest

The interest rate charged on a seed cotton loan is set at one percentage point above CCC's cost of borrowing from the U.S. Treasury at the time the loan is made as required by Section 163 of the Federal Agricultural Improvement and Reform Act of 1996. After a loan is made, the rate is fixed except the interest rate for loans outstanding on Jan. 1 is adjusted to reflect CCC's cost of borrowing on Jan. 1, plus one percentage point.

Loan Service Fees and Offsets

Service charges will be assessed on all seed cotton loans disbursed, including seed cotton loans disbursed to approved cooperatives. The service fee will be the small of the following:

- ½ of 1 percent (0.005) times the gross loan amount
- \$45 per loan, plus \$3 for each module over 1.

Seed cotton loans are subject to offset. If a producer owes an amount to CCC, the FSA, or other federal creditors, or for other debts having lien status under state law, it will be deducted from the loan amount.

Research and promotion fees do not apply to seed cotton recourse loans.

Loan Settlement

Seed cotton loans must be redeemed at principal plus interest either by:

- Cash repayment from the producer, or
- Proceeds from a ginned-cotton MAL.

To ensure the proceeds from a ginned-cotton loan provided by CMA or LSA are used to repay a seed cotton loan obligation, FSA County Offices will provide written or e-mail notification to every CMA or LSA used by the producer of the producer's:

- Name and farm number (s)
- Module number submitted as collateral for the seed-cotton loan.

Seed cotton loans must be redeemed by the dates specified above regardless of whether or not the modules have been ginned. Seed cotton loans not redeemed by the maturity date, may be subject to a local sale to satisfy the loan amount.

OTHER REQUIREMENTS

Ginner Approval Application for Seed Cotton Loans

If cotton modules pledged for a seed cotton loan are stored at the ginner's premises, each ginner wanting to participate in the recourse Seed Cotton Loan Program **must** file CCC-879 Application For Approval of Cotton Gin Under Seed Cotton Loan Program in the County Office where the gin is located.

CCC will enter into an agreement with approved ginner by completing the CCC-890 Ginner's Seed Cotton Agreement after:

- A CCC representative visits the gin to determine the conditions and related documents are correct

- CCC representative determines the ginner understands the ginner's obligations under the program
- Reviewing documents and determining the information is valid
- Carefully considers the conditions of the storage area are suitable to protect CCC from damaged collateral
- Carefully reviews and ensures the ginner carries fire insurance to cover the full loan value of the cotton stored on gin premises or premises under the ginner's control
- Ensures the gin is a reputable concern.

For More Information

Further information on this and other FSA programs is available from local FSA offices or on FSA's Web site at: <http://www.fsa.usda.gov>.

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