Fact Sheet *October 2002*

United States
Department of
Agriculture

Upland Seed Cotton - Locking the Adjusted World Price for Loan Deficiency Payments

Overview

Producers who request a Farm Service Agency (FSA) loan deficiency payment (LDP) on upland seed cotton have the option to “lock in” the world price for computing the payment. The lock-in must be requested after harvest, but before the cotton is ginned. LDPs provided under this option are based on the world price for the date the producer requested the lock-in and are payable after the cotton has been ginned and classed.

Background

USDA’s nonrecourse marketing assistance loans for upland seed cotton provide producers the financing to store harvested crop production rather than immediately selling the crop. Producers can then pay bills without having to sell the harvested crop if prices are low.

When the adjusted world price (AWP) for upland cotton falls below the loan rate, producers can repay loans at the AWP level. Alternatively, an eligible producer may choose to receive an LDP. An LDP is the difference between the higher loan rate and the lower AWP. For more information on marketing loans and LDPs, see the FSA fact sheet “Nonrecourse Marketing Assistance Loans and Loan Deficiency Payments.”

Eligible Applicants

Producers and cooperative marketing associations (CMA) are eligible for LDPs and lock-ins if they have beneficial interest in the cotton at the time of the application. Producers and CMAs have beneficial interest in the cotton if they retain:

- control of the commodity,
- risk of loss, and
- title to the commodity.

For more information on beneficial interest, see the FSA fact sheet “Beneficial Interest Requirements for Loans and Loan Deficiency Payments.”

Eligible Cotton

To be eligible for a lock-in of the AWP, cotton must meet all of the eligibility requirements for marketing assistance loans and LDPs. Cotton is eligible for a lockin after harvest, but before ginning, while stored in cotton modules, ricks, or trailers. (These various units of storage are hereafter referred to as modules.)

Cotton used as collateral for a seed-cotton loan is also eligible for a lock-in. In addition, seed-cotton for which an LDP is requested remains eligible for a seedcotton recourse loan. Any seed-cotton loan must be repaid before an LDP is disbursed.

How to Apply

Step One: Obtain Module Numbers

Prior to requesting a lockin, producers must obtain module numbers from an approved gin and affix those numbers to the modules filled with cotton. Storage units must be identified by discrete numbers and the bales submitted for payment must be identified by ginner records as having been produced from the module for which the lock-in rate was requested.

Modules are the largest storage units permitted to be identified for the lock-in option. A lockin is not provided on empty storage units or on duplicate ginprovided module numbers. In the event of duplicate numbers, the lock rate will apply only to the first unit affixed with the duplicate module number.

Step Two: Complete Application Form

Producers must request a lock-in on application form CCC-Cotton AA, “Upland Cotton Producer’s Loan Deficiency Payment Application and Certification.” This form, which establishes the date of the LDP request and AWP lock-in rate, is available at local FSA offices.

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On the form, applicants must agree to:

- submit gin-provided documentation identifying the bales produced from the module/ storage unit for which the AWP lockin applies, and
- pay liquidated damages for applications based on a locked-in rate that is unsupported by bale-identifying documentation.

Step Three: Provide Documentation

After the cotton is ginned, the producer must provide FSA with documentation from the gin that identifies the module's individual bales.

Other Conditions

Producers must request locked-in LDPs on a module's actual production, subject to a maximum of 20 bales per module. Individual producers who wish to exceed this maximum must appeal to their FSA state committee. Cooperative marketing associations and loan servicing agents must obtain approval from FSA's Deputy Administrator for Farm Programs.

LDPs requested on a locked-in AWP are irrevocable and the cotton becomes ineligible for a marketing assistance loan. Producers are not permitted to void or amend the application. Any application for which production evidence is not provided is a violation subject to payment of liquidated damages.

Lock-In Availability Date

LDPs based on a lock-in AWP are available through May 31 of the calendar year after the calendar year in which the crop was planted. This is the same availability period as provided for marketing assistance loans.

If the producer fails to provide production evidence for the lockin by May 31, the LDP request is void. The cotton becomes ineligible for marketing assistance loans and LDPs, and liquidated damages will be assessed.

Liquidated Damages

Applicants must pay liquidated damages for modules unsupported by production evidence. The damages are calculated as follows for each module:

- the requested LDP rate times
- 15 bales per module times
- 490 pounds per bale times
- a percentage factor that is:
  - 10 percent for the first offense (first module) of an application,
  - 25 percent for the second offence if the local FSA county committee determines the producer acted in good faith when the violation occurred, or
  - 25 percent for the first or second offense if the county committee determines the producer did not act in good faith when the violation occurred.

Incorrect Certifications

FSA will treat incorrect certifications as violations, per the Code of Federal Regulations, Section 1427.18, "Liability of the Producer."