

REQUEST TO LOCK IN A MARKET LOAN REPAYMENT RATE (CCC-697)



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INTRODUCTION

The Farm Service Agency (FSA) has issued new guidelines and procedures for locking-in a repayment rate for CCC loans. Previously, producers could combine their request for a marketing authorization and locking-in a repayment rate by using the "Marketing Authorization", CCC-681-1 form. The rule change has separated the process of requesting a market authorization and the locking-in of a repayment rate.

The "Marketing Authorization", CCC-681-1, will now be used **only** for requesting market authorization – that is, for notifying a buyer that commodity mortgaged to CCC is being removed for sale. The CCC-681-1 will continue to be the notice to the buyer that commodity sale proceeds need to be issued in one of two ways: 1) proceeds issued jointly between the borrower and CCC, or 2) separate checks be written, one to CCC for the amount needed to satisfy loan repayment on bushels removed and another check to the borrower for proceeds in excess of the loan amount.

"Request To Lock In A Market Loan Repayment Rate", CCC-697, will be used to lock-in a repayment rate. This process is completely separate from that accomplished by using the CCC-681-1.

GUIDELINES FOR LOCKING IN A REPAYMENT RATE, CCC-697

- The CCC-697 can be used for either farm stored or warehouse stored grain under CCC loan.
- Producers can use the CCC-697 to lock-in a repayment rate on the entire loan quantity or any portion of the loan quantity. With warehouse stored loans, the producer must use the lock-in on at least the entire quantity listed on a single warehouse receipt.
- Producers can use the CCC-697 on any 1998 or 1999 commodity under nine month CCC loan.
- The lock-in rate listed on the CCC-697 will be the Posted County Price (PCP) on the day the request is approved.
- Once approved by the FSA office, Form CCC-697 locks-in the repayment rate for 60 days. All CCC-697 authorizations expire 14 days before the CCC loan maturity date, even though that expiration date is less than 60 days from the date of CCC-697 was approved.
- If the CCC-697 expires before commodity delivery is completed or buyer settlement is made, the producer must make cash repayment on the loan to take advantage of the locked-in repayment rate.
- Requesting a "Marketing Authorization", CCC-681-1, **will not** extend the deadline for making repayment on the CCC loan at the repayment rate authorized by the CCC-697. The CCC-681-1 is a separate, unrelated process.
- More than one CCC-697 can be in effect at the same time but they **can not** be in effect for the same grain. **Key Point:** If a CCC-697
- The "Request To Lock In a Market Loan Repayment Rate", CCC-697, can be used only on grain under CCC nine month loan.

authorization expires and the specified grain quantity has not been redeemed from loan, that same quantity **can not** be placed on a future CCC-697. The loan for the authorized quantity must be repaid either at the PCP rate in effect the day of repayment or at Principal plus Interest, whichever is less, **as long as repayment is made before loan maturity.**

- If designated quantities listed on the CCC-697 are not repaid prior to the expiration date of the CCC-697, the locked-in repayment rate will be invalid. This grain can still be redeemed at a later date at the PCP on the date of repayment or at Principal plus Interest, whichever is less. **Key Point:** If the CCC loan on this grain quantity has matured, the loan must be repaid at Principal plus Interest **unless** delivered for sale under an approved “Marketing Authorization”, CCC-681-1. And of course, the grain could also be forfeited.
- Payments received by the FSA office, while CCC-697 authorizations are in effect, will be applied first to CCC-697s with the earliest authorization date.
- Producers can repay the CCC-697 designated quantity, and only the designated quantity, at the locked-in rate anytime during the 60 day period. Payment can be by personal check or by an approved “Marketing Authorization”, CCC-681-1.
- Because the CCC-697 process is not directly related to grain delivery, **no** extensions on lock-in periods will be granted.
- All CCC-697 requests must be made in person. FSA office staff will not accept telephone or fax requests.
- Neither the “Request To Lock In A Market Loan Repayment Rate”, CCC-697, or the “Marketing Authorization”, CCC-681-1, have any affect on the Loan Deficiency Payment (LDP) process. They are separate processes from LDPs.

EXAMPLES

Following are several examples that will illustrate

how the “Request To Lock In a Market Loan Repayment Rate”, CCC-697, process might work.

• **Example # 1:**

Farmer A acquires a CCC loan on 10,000 bushels of corn on December 1, 1999. On January 10, 2000, Farmer A exercises the option to lock-in a repayment rate of \$1.55 per bushel on 5,000 bushels for a 60 day period (January 10 through March 9, 2000). On March 1, 2000, Farmer A requests a “Marketing Authorization”, CCC-681-1, for Elevator A. The grain is delivered and the check for the sale proceeds is received by the FSA office on March 8th. The repayment rate on the 5,000 bushels of corn was \$1.55 per bushel. For the 5,000 bushel of corn not included in the CCC-697, Farmer A is free to request a CCC-697, to request a CCC-681-1, to buy it back at a given PCP and use it for feed/sale or to forfeit the corn.

• **Example # 2:**

Farmer B acquires a CCC loan on 10,000 bushels of corn on December 1, 1999. On January 10, 2000 Farmer B requests a CCC-697 to lock-in a repayment rate for 60 days (January 10 through March 9, 2000) on 5,000 bushels of corn. The locked-in repayment rate is \$1.55 per bushel. On February 7, 2000 Farmer B requests a second CCC-697 to lock-in a repayment rate on the remaining 5,000 bushels of corn for 60 days (February 7 through April 7, 2000). The rate on this transaction is \$1.61 per bushel. During March 2000 the entire loan quantity (10,000 bushels) is sold. On March 8th the first repayment is received by the county FSA office and will be applied to the first CCC-697 with a repayment rate of \$1.55. On March 21st the second repayment is received by the county FSA office and will be applied to the second CCC-697 with a locked-in repayment rate of \$1.61. The second repayment was received after the expiration date of the first CCC-697, but was within the time frame for the second CCC-697, so no problem.

• **Example # 3:**

Farmer C acquires a CCC loan for 10,000 bushels of corn on December 1, 1999. On January 10, 2000, Farmer C requests a CCC-697 for the entire 10,000 bushels at a locked-in repayment rate of \$1.50 per

bushel for 60 days (January 10 through March 9, 2000). During the time the CCC-697 is in effect, cash corn markets fall to a \$1.30 per bushel. Farmer C chooses not to sell the grain or to repay the loan during the 60 day period covered by the CCC-697. On March 9, 2000 the CCC-697 expires with no repayment so the \$1.50 per bushel lock-in repayment rate goes away. Farmer C can not utilize a second CCC-697 on the same 10,000 bushels of corn. After the expiration of the CCC-697, Farmer C can repay the loan at either the current PCP or Principal plus Interest, whichever is less. Farmer C chooses to repay the loan on April 1, 2000 at a PCP of \$1.34 per bushel.

• **Example # 4:**

Farmer D acquires a CCC loan on December 1, 1999 for 10,000 bushels of corn. On January 10, 2000, Farmer D requests a CCC-697 to lock-in a repayment rate of \$1.50 per bushel on all 10,000 bushels for a period of 60 days (January 10 through March 9, 2000). During February 2000 Farmer D hauls all the grain to Elevator A and sells it. **Farmer D did not request a “Marketing Authorization”, CCC-681-1, before the grain was sold.** Repayment was received by the county FSA office before the expiration of the CCC-697 (March 9, 2000). Because of the unauthorized removal of grain, Farmer D could not use the locked-in repayment rate of \$1.50 per bushel to repay the loan. Farmer D **can not** use the PCP on the day of repayment either. Instead, Farmer D has to repay the loan at **Principal plus Interest. (ex. \$1.74 principal plus \$.04 interest = \$1.78 per bushel.)**

• **Example # 5:**

Farmer E acquires a CCC loan for 10,000 bushels of corn on December 1, 1999. On January 10, 2000 Farmer E requests a CCC-697 to lock-in a repayment rate of \$1.50 per bushel on 10,000 bushels for 60 days (January 10 through March 9, 2000). Farmer E chooses to contract the 10,000 bushels of corn for June delivery because of market indicators but wants to utilize the \$1.50 repayment rate. The June date is after the expiration date of the CCC-697 (March 9, 2000) so Farmer E will issue a personal check to the county FSA office on March 8, 2000, **prior to the expiration of the CCC-697.** This transaction repays the loan at the locked-in repayment rate of \$1.50 per bushel even

though no grain has been delivered. Farmer E is then free to forward contract the grain.

• **Example # 6:**

Farmer F acquires a CCC loan on December 1, 1999 for 10,000 bushels of corn. On January 10, 2000, Farmer F requests a CCC-697 to lock-in a repayment rate of \$1.50 per bushel on all 10,000 bushels for 60 days (January 10 through March 9). Within the 60 day period covered by the CCC-697, Farmer F requests a “Marketing Authorization”, CCC-681-1, good for a 30 day period plus a 15 day grace period (January 14 through February 28, 2000). The CCC-697 requested on January 10, 2000 will expire on March 9, 2000. If the CCC-681-1 expires **during the time the CCC-697 is in effect** (January 10 through March 9), **without repayment of the loan**, the locked-in repayment rate is invalid and there is a violation. If Farmer F **does not** repay the loan within the time covered by the CCC-681-1 (30 days plus 15 days grace period), at the locked-in rate of \$1.50, Farmer F **must repay the CCC loan at a rate of Principal plus Interest. (ex. \$1.74 principal + \$.04 interest = \$1.78).** The “Marketing Authorization”, CCC-681-1, supercedes or comes before the CCC-697. If the CCC-681-1 time line is violated, this also violates the CCC-697 and the locked-in repayment rate on the CCC-697 is lost.

SUMMARY

- Both the “Request To Lock In A Market Loan Repayment Rate”, CCC-697, and the “Marketing Authorization”, CCC-681-1, are critical procedures for your farming operation. Be certain you understand all provisions and guidelines thoroughly. Utilize both procedures to maximize farm income.
- The CCC-697 and CCC-681-1 procedures have no effect on LDPs. Therefore, plan accordingly so as to maximize LDPs plus any additional financial advantages from the CCC-697 or CCC-681-1.
- Work with your creditor when utilizing the CCC-697 and CCC-681-1 procedures. This will be very important if you market according to Example #5

listed earlier. That is, forward contracting for delivery beyond the CCC-697 expiration date making it necessary to repay the CCC loan before delivery/sale is made.

- As always, these procedures and guidelines are subject to change. Consult your local county FSA office staff for more information.