Cooperative Extension Service
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WEEKLY OUTLOOK
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FARMERS' USE OF CERTIFICATES

GENERIC COMMODITY CERTIFICATES have been issued to participants in the 1986 wheat and feed-grain programs as part of the advanced deficiency payments and as payment for the land diversion program. These certificates have a specified dollar value, are negotiable, and must be liquidated before the stated expiration date.

Farmers who receive certificates can use them to redeem commodities under the Commodity Credit Corporation (CCC) loan, sell them to others in the industry, or hold the certificates until the first transfer deadline and then exchange them for cash at the local office of the Agricultural Stabilization and Conservation Service (ASCS). The last alternative is the least attractive because cash payments will be reduced by 4.3 percent to comply with spending restrictions under the Balanced Budget and Emergency Deficit Control Act (Gramm-Rudman-Hollings).

The second alternative, that of selling to others, has been popular because the price for the certificates has generally been above the face value and has been increasing. The primary purchasers of the certificates have been grain dealers. Those purchases have been motivated by the potential to resell the certificates at a profit, the opportunity to free some storage space by exchanging certificates for grain stored in their elevators, or the opportunity to purchase CCC commodities at advantageous locations.

Increasingly, producers are considering the use of certificates to redeem commodities under CCC loan. A popular idea is to put 1986 grain under loan and to acquire enough certificates to immediately redeem those loans. Those intending to redeem 1986 loans with certificates should check with the county ASCS office for instructions and assistance in expediting the transactions.

Let's consider an example. A producer has harvested 1,000 bushels of corn, but does not have enough on-farm storage capacity for that corn. Assume that commercial storage can be rented for 27 cents per bushel for 9 months, that the current cash price is $1.45 per bushel, and that the posted county price (PCP) is also $1.45.

The producer could rent storage space for 9 months, forfeit the corn to CCC, and net $1.57 per bushel. The net would actually be less, about $1.53, because of additional drying cost and shrinkage to reduce moisture below 15 percent.

Now let's consider an alternative. The producer could acquire enough certificates to redeem the 1,000 bushels immediately. With a PCP of $1.45, $1,450 worth of certificates would have to be acquired. The producer receives $1,840 (1,000 bushels X $1.84) from ASCS, redeems the loan with $1,450 worth of certificates, and sells the corn for $1,450. He has netted $1,840, compared with $1,530 under the first alternative, a gain of $310. Therefore, he could afford to pay up to, but no more than, $1,760 for the $1,450 worth of certificates. In this example, he can afford to pay up to a 21 percent premium for the certificates.

If the PCP is lower than the actual cash price, the certificates are worth more and vice versa. If the commercial elevator charges for short-term use of storage, the certificates are worth less. To calculate what the certificate is worth, divide the net price from immediate redemption (loan price adjusted by difference between PCP and loan price minus cost of short-term storage) by the net price of forfeiting to the CCC at the end of 9 months.

Where adequate on-farm storage is available, storage costs would be lower and certificates worth less. Where no storage is available and the producer's alternative is to sell at harvest, the certificates would be worth more.

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