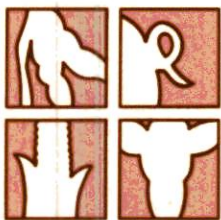




Cooperative
Extension Service
University of Illinois
at Urbana-Champaign



WEEKLY OUTLOOK

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CERTIFICATE VALUES

THERE IS STILL SOME CONFUSION AMONG CORN PRODUCERS about the value of commodity certificates used to redeem Commodity Credit Corporation (CCC) loans. Following is a brief description of determining certificate values in four different situations.

Situation I. Redeeming existing 1986 crop loans and selling corn. For 1986 crop corn now under loan, the major advantage of redeeming the loan before maturity is the savings in storage costs. A second benefit from early redemption is to capture the premium of the local cash price over the posted county price (if a premium exists). A simple formula can be applied to calculate the maximum amount which can be paid for the certificates: maximum value = (local cash price + savings of storage costs) ÷ posted county price

If, for example, the local cash price is \$1.35 per bushel, the posted county price is \$1.33 and savings on storage costs total \$.075 per bushel, the maximum amount which can be paid is: $(\$1.35 + \$.075) \div \$1.33 = 107.1$ percent.

A producer in this situation could not afford to pay more than 7 percent above the face value of certificates if forfeiture on the loan is a practical alternative.

Calculating savings in storage cost until loan maturity is simple for commercially-stored grain but may be more difficult for farm-stored grain. Potential quality deterioration must be evaluated for farm-stored grain.

Situation II. Redeeming 1986 crop loans and feeding corn. For 1986 corn already under loan and stored on the farm, the livestock feeder can meet feeding requirements by redeeming loans with certificates or purchasing corn in the cash market. Again, a simple formula can be applied to calculate the maximum amount that can be paid for certificates for redeeming loans rather than purchasing corn: maximum value = delivered price of purchased grain ÷ posted county price.

If, for example, the price of grain (including transportation cost) delivered to the farm is \$1.50 and the posted county price is \$1.33, the maximum amount that can be paid for a certificate is $\$1.50 \div \$1.33 = 112.8$ percent.

Situation III. Redeeming 1987 crop loans at harvest when storage is available. Assuming that the cash price is less than the net loan price (loan rate minus storage costs for nine months), the producer has the choice of either using certificates to redeem loans at harvest or storing the corn for nine months with the intention of forfeiting the loan.

The primary advantage of immediate redemption, then, is the savings in storage costs (including extra drying and shrinkage). Some of that advantage may be lost if there is a cost for acquiring a commercial warehouse receipt for a short period of time. No additional cost would be incurred for farm storage if an additional handling could be avoided.

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Again, a simple formula can be applied to determine the maximum amount which can be paid for certificate: $\text{maximum value} = (\text{cash price} + \text{storage cost} - \text{cost of warehouse receipt}) \div \text{posted county price}$.

If, for example, the cash price at harvest is \$1.20, the cost of commercial storage for 9 months (including extra drying and shrink) is \$.30, the cost of the warehouse receipt is \$.02, and the posted county price is \$1.18, the maximum value is $(\$1.20 + \$.30 - \$.02) \div \$1.18 = 125.4$ percent.

Situation IV. Redeeming 1987 crop loans at harvest when storage is not available. The producer can use certificates to avoid accepting a cash price that is below the net loan value. However, short-term storage space on the farm or commercially is required. As in the previous example, there may be a cost in acquiring a warehouse receipt for a short period of time.

The maximum amount which can be paid for certificates in this situation can be calculated as: $\text{maximum value} = (\text{loan rate} - \text{cost of warehouse receipt}) \div \text{posted county price}$.

If, for example, the loan rate is \$1.82, the posted county price is \$1.18 and the cost of the warehouse receipt is \$.02, the maximum premium is $(\$1.82 - \$.02) \div \$1.18 = 152.5$ percent.

All of the above examples assume that the cash price of corn will not exceed the loan redemption value (loan price plus accrued interest) during the marketing year.

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