



United States Department of Agriculture

# **Tobacco Transition Payment Program**

**Annual Payments,  
Assignment of Payments,  
Successor-in-Interest Contracts,  
Discount Rates  
and Lump Sum Payments**

April 20, 2005

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***Farm Service Agency***

# Agenda

- Welcome
- Introductions
- PowerPoint Presentation
- Question and Answer Panel



# Overview

- “Buyout” payment options
  - Annual payments
  - Assignment of payments
  - Successor-in-interest contracts
- Discount rates



# What is the legal authority and source of funding for payments?

- On October 22, 2004, President George W. Bush signed the American Jobs Creation Act of 2004.
- This Act included the Fair and Equitable Tobacco Reform Act, which established the Tobacco Transition Payment Program.
- To fund these payments, the Commodity Credit Corporation (CCC) will assess importers and manufacturers of tobacco products.



# Contracts

- To date, about 145,000 quota holder contracts and 62,000 producer contracts have been completed, representing approximately \$3.5 billion. No approvals to date.
- FSA will issue a **CCC-960**, *Tobacco Transition Payment Program Approval Notification*, when the contract has been approved.
  - Notification contains base quota level (payment pounds), payment amount, appeal rights, and deadlines.



# Payments

- CCC payments will be issued over a 10 year period.
- The 2005 payments start in June 2005 and continue through September 30, 2005.
- 2006 - 2014 payments will be disbursed in January of each year. Target date is January 15, not later than January 31.
- Multiple electronic payments with same bank routing number and account number will be combined into a single electronic payment.
  - A transaction statement will be issued with each individual payment.





# Payment Options

- Producers may receive payments from CCC in 10 annual installments.
- Third parties may be involved through:
  - assignment of payments
  - successor-in-interest contracts.



# What is the difference between an assignment of payment and a successor-in-interest contract?

- Assignment of payment: Payment is issued to a third party of the assignor's choice. Tobacco quota holder or producer will continue as contract holder and must abide by terms of contract.
- Successor-in-interest contract: The original contract holder no longer has a contract with CCC. All future payments will be issued to the successor who must abide by terms of contract.
- Assignment of payment transfers the rights to the **payment** to a third party; successor-in-interest transfers the **contract** to a third party.





# Assignment of Payments

- May be entered into at anytime.
- All or any part of payment stream may be assigned.
- Subject to administrative offset under the Debt Collection Improvement Act of 1996.
- Revocable at any time with the consent of the assignee.
- May be used beginning with first payment in 2005.
- Form CCC-959, *Tobacco Transition Payment Program Assignment of Payment* (March 31, 2005) must be used.



# Successor-In-Interest Contract

- May be entered into starting with the fiscal year 2006 payment.
- Contracts not yet available.
- May not be revoked.
- Enter into a successor-in-interest contract by November 1<sup>st</sup> in order to receive the subsequent January payment.
- Succeed to whole contract (partial successor-in-interest contracts are not allowed)



# Successor-In-Interest Contract (continued)

- Prior and subsequent actions of the original contract holder will not affect the rights of the successor.
- CCC will allow sale of successor-in-interest contracts to another party.



# Lump Sum Payments

- A third party may offer lump sum payment to tobacco quota holder or producer at a discounted rate.
  - Maximum discount rate is prime rate in effect on first business day of month plus 2 percentage points, rounded to nearest whole number.
- No legal authority for CCC to make lump sum payments.



# Maximum Discount Rate

- The maximum discount rate is prime interest rate announced for the month, rounded to nearest whole number and then adding 2 percentage points.

## Examples of discount rates

<b>If the Prime Rate is:</b>	<b>Then the Maximum Discount Rate is:</b>
5.75 percent	8.0 percent (5.75 rounded to 6.0, plus 2.0)
5.25 percent	7.0 percent (5.25 rounded to 5.0, plus 2.0)
5.50 percent	8.0 percent (5.50 rounded to 6.0, plus 2.0)



# Maximum Discount Rate (continued)

- Determined on the first business day of the month and will not change during that month.
- Prime rate can be located at:
  - <http://www.federalreserve.gov/releases/h15/update/>
    - Use the **Bank Prime Loan** rate line for the first day of the month.
  - April 1, 2005, rates
    - Prime rate is 5.75 percent.
    - Maximum discount rate is 8.00 percent
- Press release issued monthly.



# Electronic Funds Transfer

- FSA strongly encourages the use of Electronic Funds Transfers.
- Form SF-1199A used for direct deposit.





# Discount Rate Example

- Assumptions:
  - Contract holder is eligible to receive \$1,000 annual payment for 10 years.
  - First payment from CCC received July 2005.
  - 2<sup>nd</sup> through 9<sup>th</sup> payments issued on January 15<sup>th</sup> of each year
  - Succession-in-interest contract for remaining 9 payments (\$9,000).
  - Prime rate is 5.75 percent.
  - Maximum discount rate is 8.0 percent.



## Discount Rate Example (continued)

- Producer wants to receive a lump sum payment instead of 9 annual payments of \$1,000 each.
- Producer receives lump sum payment on July 15<sup>th</sup>
  - Minimum lump sum payment is \$6,492 (72.1 percent of \$9,000)
- Producer receives lump sum payment on Oct. 15<sup>th</sup>
  - Minimum lump sum payment is \$6,618 (73.5 percent of \$9,000)



# Additional Information

All tobacco information will be available on the tobacco information Web site at: <http://www.fsa.usda.gov/tobacco>



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# Question and Answer Panel



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