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Peanut Marketing Assistance Loans and Loan Deficiency Payments

Overview

The Food, Conservation and Energy Act of 2008 (2008 Act) authorizes Marketing Assistance Loans (MALs) and Loan Deficiency Payments (LDPs) for crop years 2008 through 2012 for peanut producers. Producers may apply for MALs for farm or warehouse-stored peanuts or for peanut LDPs. These programs help to stabilize America's peanut industry and ensure the well being of agriculture in the United States.

Peanut nonrecourse marketing assistance loans provide eligible producers with interim financing on their production and facilitate the orderly distribution of loan-eligible peanuts throughout the year. A nonrecourse loan allows a producer with eligible peanuts to store the production and pledge the peanuts as collateral instead of selling them immediately after harvest. The loan helps an eligible producer pay bills without having to sell the peanuts at a time of year when prices tend to be lowest. When market conditions may be more favorable, a producer may sell the peanuts and repay the loan with the proceeds of the sale. If a producer is unable to repay the loan, he or she can deliver to Commodity Credit Corporation (CCC) the quantity of peanuts pledged as collateral as full payment for the loan at maturity.

Nonrecourse marketing assistance loans are administered by the U.S. Department of Agriculture's (USDA) Farm Service Agency (FSA) on behalf of CCC. The regulations authorizing this program are in 7 CFR Part 1421 Marketing Assistance Loans and Loan Deficiency Payments. The regulations cover peanuts, pulse crops, wheat, feed grains, soybeans and other oilseeds. The regulations authorizing the establishment of minimum quality and handling standards for domestic and imported peanuts marketed in the United States can be found at 7 CFR Part 996.

Eligibility

To be eligible for a MAL or LDP, the producer must:

- Share in the risk of producing the commodity;
- Be compliant with conservation and wetland requirements;
- Be compliant with planting flexibility requirements;
- Have and retain beneficial interest in the peanuts until the loan is repaid or CCC takes title to the commodity;
- Submit an acreage report to account for all cropland on the farm; and

- Report how cropland acreage is used on the farm.

To be eligible for a loan or LDP, the peanuts must:

- Have been produced and harvested by an eligible producer and be in storable condition;
- Be merchantable for feed, food, or other uses as determined by the CCC;
- Meet the specific commodity eligibility requirements for nonrecourse loans;
- Be one of the following types: Virginia, Runner, Spanish or Valencia;
- Not have been shelled or crushed;
- Be inspected and graded if warehouse-stored; and
- Be inspected and graded upon delivery if farm-stored.

Beneficial Interest

Producers must have beneficial interest in the peanuts at the time of the request to obtain a MAL or LDP. Beneficial interest consists of the producer's maintaining control of the commodity and title to the commodity.

If either of these is lost, the producer does not have beneficial interest in the peanuts. There are no provisions for waiving beneficial interest for the 2008 and subsequent crop years.

Application Process for Marketing Assistance Loans

For a MAL, producers can request a farm-stored or warehouse-stored loan. Warehouse-stored loans will be adjusted for premiums and discounts, if applicable.

Loan Limit and Terms

For the 2008 crop year, there is a combined \$75,000 payment limitation for marketing loan gains and LDPs for peanuts, wool, mohair and honey. This limitation is not authorized for the 2009-2012 crop years. The 2008 Act requires CCC to pay handling and associated (other than storage) costs for all peanuts placed in MAL program through the 2008-2012 crop years when the loan is disbursed. Subsequently, when the loan is redeemed, all handling and associated costs must be repaid to CCC.

Farm-stored loans are either certified or measured. Certified loans refer to the producer personally certifying the crop quantity in farm storage.

Measured loans refer to on-site measurement conducted by an FSA employee, which requires payment for the service at the time of request.

Producers who request warehouse-stored loans must present an acceptable warehouse receipt issued by a CCC-approved warehouse. To obtain a warehouse-stored peanut loan, CCC loan collateral peanuts must be stored in a CCC-approved warehouse.

Further, beginning with the 2008 crop year, CCC will not reduce the loan rate for any unpaid storage through loan maturity.

2008 Price Support Levels by Peanut Type

The loan levels by type for an average grade of 2008-crop peanuts per ton are:

- Runner-type peanuts - \$354.75
- Spanish-type peanuts - \$348.95
- Valencia-type peanuts - \$357.32
- Virginia-type peanuts - \$357.32

The method of computing the loan levels for 2008-crop peanuts and the grades within the types are the same as last year.

Service Fees

The peanut marketing assistance loan service fee, which is nonrefundable, shall be the smaller of the following:

- \$45 for each loan plus \$3 for each storage bin or receipt over one; or
- Half of one percent times the gross amount of the loan.

Exception: This fee is not applicable to Designated Marketing Associations (DMAs)

Marketing Loan Gains

A producer realizes a marketing loan gain if the loan is repaid at less than the loan principal. The marketing loan gain rate equals the amount by which the applicable loan rate exceeds the loan repayment rates.

Authorized Offsets

Offsets from the loan proceeds (or deductions) may be made for amounts contained on a separate statement of unpaid charges or a separate bill for unpaid charges. These charges must be associated with the handling of the peanuts represented by the warehouse receipt and the marketing of the peanuts pledged as loan collateral. The FSA county offices, peanut DMAs and Cooperative Marketing Associations (CMAs) are only authorized to offset charges associated with cleaning, drying, custom harvesting, seed accounts and storage of peanuts from the producer's loan proceeds.

These charges are not considered a lien, and must be included on a CCC-679, block 8(3), if an offset will be made for these charges. The Deputy Administrator for Farm Programs must approve all other requests for offset of charges.

Loan Deficiency Payments

A producer who is eligible to obtain a loan, but who agrees to forgo the loan, may obtain a loan deficiency payment (LDP). The LDP rate equals the amount by which the applicable loan rate where the commodity is stored exceeds the national posted repayment rate. Beginning with the 2008 calendar year, FSA/CCC will report producer market gains associated with repayments of a CCC loan, whether the producer repays the loan with cash or uses commodity certificates in exchange for the outstanding loan collateral. The market gain will be reported on IRS Form-1099G.

The following are examples of LDP calculations.

Using a warehouse receipt as production evidence to determine eligible LDP quantity,

Producer A presents a warehouse receipt and makes requests for LDP on Segregation 1, 2, or 3, Virginia type peanuts. The warehouse receipt contains the following information.

- "Net Pounds" = 10,000
- "Loose-shelled kernels (LSK) Pounds" = 345

Eligible Quantity:

Pounds: $10,000 + 345 = 10,345$
Tons: $10,345 \div 2,000 = 5.17$

Loan rate Per Ton of Segregation 1, Virginia Peanuts: \$357.32

National Posted Price for Virginia Peanuts: \$341.66

LDP Rate Per Ton of Virginia Peanuts: $\$357.32 - \$341.66 = \$15.66/\text{ton}$

LDP Amount: $\$15.66 \times 5.17 = \80.96

When the National Posted Price by peanut type is higher than the applicable loan rate, there would be no LDP.

LDPs can either be certified or based on submitted acceptable production evidence. LDPs must be requested on form CCC-633 EZ. Eligible producers must indicate their intentions by submitting a completed CCC-633 EZ, page 1, to their local FSA county office before beneficial interest is lost and by the final loan availability date. The CCC-633 EZ, page 2, must be submitted by the producer when the producer wants the LDP payment. LDPs are assignable and not subject to premiums or discounts. The basic LDP rate is the rate in effect on the date of request.

Peanut DMA's will obtain the CCC-633 EZ from their customers.

Note: For the 2008-crop year, an FSA-1007 form may be considered acceptable production evidence only if a producer has filed a completed CCC-633 EZ (pages 1 and 2) and the peanuts are immediately sold upon delivery. The date the peanuts are sold will be printed on the FSA-1007, and this date is used to determine when beneficial interest is lost.

Electronic Warehouse Receipts

The use of peanut electronic warehouse receipts (EWR), implemented in late 2003, will continue during the 2008-crop year. FSA has designated a provider (EWR, Inc.) to maintain a central filing system for peanut EWRs. The electronic system is designed to:

- Allow the provider to issue peanut EWRs following the guidelines issued by FSA;
- Transfer EWR data from the provider to the requesting FSA county office;
- Use EWR data received from the provider to process marketing assistance loans or LDPs using Automated Price Support System; and
- Track the status of EWR data.

Repayment Rates (National Posted Price)

CCC announces the national posted price for peanuts weekly on Tuesdays at 3:00 p.m. Eastern Time (ET) on the FSA Web site and in local FSA offices. The repayment rate becomes effective Wednesday at 12:01 a.m. ET. The rates can be obtained by visiting: http://www.fsa.usda.gov/Internet/FSA_File/peanut.xls.

Designation of Agent

Producers may designate an agent to redeem all or a portion of the peanuts pledged as collateral for a marketing assistance loan.

Designation of an agent does not relieve the producer from the terms and conditions of the note and security agreement. Designated agents may transfer the designation to a subsequent agent on form CCC-605P, by endorsement. Agents who are subsequently designated may transfer the designation to other subsequent agents on CCC-605P-2, by endorsement. County offices will make forms CCC-605P, CCC-605-1, and CCC-605P-2 available to the public. Producers should be advised that a separate CCC-605P is required for each loan. These forms are available at <http://forms.sc.egov.usda.gov/eforms/mainervlet> or in FSA county offices.

Peanuts Forfeited to CCC

If a loan is not repaid within the 9-month loan period and the peanuts are subsequently forfeited to CCC, CCC will pay storage, handling and other associated cost for all peanuts pledged as collateral.

Application Deadline/Loan Availability Period

Peanut MALs and LDPs are available to all eligible producers during the year following a normal harvest. All applications for peanut marketing assistance loans or LDPs must be made by January 31.

More Information

Additional information on loans and LDPs for peanut producers is available from local USDA Service Centers and on the FSA Web site at <http://www.fsa.usda.gov>.

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