UNITED STATES DEPARTMENT OF AGRICULTURE
Farm Service Agency
Washington, DC 20250

Notice FLP-2

1924-B

For: State and County Offices

Guidance on 1999 Farm Planning Prices

Approved by: Deputy Administrator, Farm Loan Programs

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1 Overview

A Background

FmHA Instruction 1924-B requires State Offices to establish unit prices for agricultural commodities produced in the State. These prices are used in farm business planning by loan officials and FSA farm customers.

B Purpose

Many agricultural commodities are experiencing severe price stress.

This notice:

- provides guidance to State Offices in the formulation and issuance of prices to be used in farm business planning prices for 1999.
- ensures consistency in planning prices among States.

C Contact

State Offices shall direct questions about this notice to LMD.

2 Establishing Commodity Unit Prices for 1999

A Overview

Unusually low commodity and livestock prices will make it difficult to develop farm plans with cash flow projections to justify making new loans to FSA borrowers and applicants.

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Disposal Date	Distribution
October 1, 1999	State Offices; State Offices relay to County Offices

2 Establishing Commodity Unit Prices for 1999 (Continued)

B Establishing 1999 Prices

State Offices shall establish prices on a Statewide basis after consultations with USDA agencies, other agricultural lenders, local elevators, and Land Grant Universities. Regional unit prices may be established for different areas of the State.

Established prices must be based on supportable and realistic expectations of attainable returns by FSA customers. Optimism should not be the only basis or justification for computation of 1999 expected prices.

Based upon a recent decision by the Secretary, the methodology used for price planning by States should be the higher of the following:

- the national commodity loan rate
- the December 1999 Chicago Board of Trade (CBOT) or Chicago Mercantile Exchange (CME) price, plus or minus the local basis.

Use of these factors would represent an objective rather than subjective approach to price projections and is the minimum price to be used for planning purposes. An example of how this method would work is as follows:

The current loan rate for corn is $1.90 per bushel. The price for December 1999 delivered corn on CBOT is $2.49. Assuming a 30 cent per bushel local basis, the price for corn would be $2.49 - .30 = $2.19. In this case, $2.19 would be used as the minimum planning price for corn since it is higher than the $1.90 loan rate. However, if the December 1999 CBOT price of corn dropped below $2.20 per bushel, then the loan rate of $1.90 would be used as the minimum for planning (assuming there is a 30 cent basis $2.19 - .30 = $1.89).

Since there is no loan rate for livestock, the minimum price to be used would be the December 1999 CME price plus or minus the basis. The December 1999 CME price for market hogs is $49.63. Assuming a basis of approximately $1.00 for hogs, the planning price used for market hogs would be $49.63 - $1.00 = $48.63. Because the CBOT and CME prices change daily, States should use the price in effect on the day they establish their price list. If, during the course of the year, there are significant increases or decreases in the commodity prices, States should adjust their planning prices accordingly. For commodities not on CBOT or CME, States should project prices based upon the best information obtainable.

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2 Establishing Commodity Unit Prices for 1999 (Continued)

B Establishing 1999 Prices (Continued)

Prices higher than the ones established by this methodology may be used if, after following existing procedures and consultations with USDA agencies, other agricultural lenders, local elevators, and Land Grant Universities, a higher price can be reasonably documented and justified.

FSA customers should be encouraged to use risk management tools to protect themselves against price volatility.