Farm Service Agency

Fact Sheet

November 1996

USDA United States Department of Agriculture

Production Flexibility Contracts and Marketing Assistance Loans

Production Flexibility Contracts

Eligibility for Payments

Producers enrolled in 7-year Production Flexibility Contracts during the one-time sign-up held in 1996 are eligible to receive contract payments. All contracts — except those executed after the expiration of Conservation Reserve Program (CRP) contracts, as discussed below — began with the 1996 crop and extend through the 2002 crop. A farm was eligible for enrollment if it had a wheat, corn, sorghum, barley, oats, upland cotton, or rice acreage base established for 1996. Once the farm is enrolled, the crop acreage base becomes contract acreage.

Farms not enrolled during the one-time sign-up period are ineligible for program benefits, unless they are currently under a CRP contract with an associated crop acreage base reduction. The land under an expiring CRP contract may be added to an existing Production Flexibility Contract or enrolled as a new contract from October 1 through September 30 in the year following the fiscal year in which the contract expires.

If land currently under a Production Flexibility Contract is transferred to another producer or operator, or if there is a change in interest in the operation, the contract may be transferred to the new producer or operator, who assumes all obligations under the original contract. An owner or producer must inform the local Farm Service Agency (FSA) county office of changes in interest by:

- September 30 of the current fiscal year, if producers remain the same but the shares change; or

- 30 calendar days after the change is made on the farm, but no later than September 30 of the current fiscal year, if a new producer is being added to the contract.

Producer Requirements

Producers must:

- Comply with the conservation and wetland protection requirements on all of the producers' farms;

- Comply with the planting flexibility requirements;

- Use the contract acreage for an agricultural or related activity;

- Obtain at least the catastrophic level of crop insurance for each crop of economic significance or provide a written statement that waives any eligibility for emergency crop loss assistance for the crop; and

- File annual acreage reports to maintain eligibility for price support, and report any fruit and vegetable plantings on contract acreage.

Payment Dates

Annual payments will be made no later than September 30 of each of fiscal years 1997-2002. Producers may elect to receive a 50-percent advance payment on December 15 or January 15 of the fiscal year. A producer who does not request advance payments by January 15 cannot receive advance payments for that fiscal year. Producers must give advance notice regarding which date they prefer, and may change the date from year to year.

Payments

Total estimated spending levels:

FY 1996	$5.570 billion
FY 1997	$5.385 billion
FY 1998	$5.800 billion
FY 1999	$5.603 billion
FY 2000	$5.130 billion
FY 2001	$4.130 billion
FY 2002	$4.008 billion

Crop shares of contract payments:

Wheat	26.26%
Corn	46.22%
Grain Sorghum	5.11%
Barley	2.16%
Oats	0.15%
Upland cotton	11.63%
Rice	8.47%

- For each contract, the payment **quantity** of a contract commodity for each fiscal year equals 85 percent of the contract acreage ***multiplied by*** the farm program payment yield.

- The annual contract **payment rate** for each commodity equals the total spending level for each commodity for the fiscal year ***divided by*** the sum of payment quantities for each commodity for all contracts for the fiscal year.

- The annual **payment amount** equals the payment quantity for each of the contract commodities ***multiplied by*** the respective annual contract payment rate.

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In the case of wheat, cotton, barley, and oat crops, the final 1996 annual payment amount is immediately offset by the amount of any outstanding unearned advance deficiency payments for the 1995 crop. For corn and grain sorghum, the 1997 payment will be offset by outstanding unearned advances for the 1995 crop.

Each crop's share of the total spending level for a particular fiscal year is adjusted by:

- Adding total repayments of advance deficiency payments for the 1995 crop of the commodity;
- Adding refunds of contract payments received during the preceding fiscal year for the commodity;
- Subtracting total remaining deficiency payments for the 1994 and 1995 crops of upland cotton, feed grains, or wheat; and
- Adding $8.5 million for rice for each of fiscal years 1997 through 2002.

Payment Rates

Actual payment rates for 1996 and estimated payment rates for 1997-2002 are found in the table. The estimates for 1997-2002 are based upon the statutory formulae outlined above, and adjust actual 1996 enrolled acreage by anticipated changes in enrollment due to CRP contract expirations and enrollments.

Payment Limitations

The total amount of contract payments made to a "person" (see FSA Fact Sheet "Payment Limitations") under one or more Production Flexibility Contracts during any fiscal year may not exceed $40,000. Marketing loan gains and loan deficiency payments are limited to $75,000 per "person."

Commodity	1996	1997	1998	1999	2000	2001	2002
	Actual	Estimate					
	(cents per bushel unless noted otherwise)						
Wheat	87.4 1/	61.0	65.0	63.0	57.0	46.0	45.0
Corn	25.1	46.0 1/	36.0	35.0	32.0	26.0	25.0
Grain Sorghum	32.3	50.0 1/	42.0	40.0	37.0	30.0	29.0
Barley	33.2 1/	25.0	26.0	24.0	22.0	18.0	17.0
Oats	3.3 1/	3.0	3.0	3.0	3.0	2.0	2.0
Upland Cotton (cents/lb.)	8.88 1/	7.40	7.87	7.60	6.96	5.64	5.47
Rice ($/cwt.)	2.77	2.74	2.94	2.85	2.61	2.11	2.04

1/ Includes the following payment rates based on the amount of the 1995 deficiency payments required to be repaid: Wheat: 24.3; Corn: 13.0; Grain sorghum: 11.0; Barley: 9.0; Oats: 0.8; Upland Cotton: 1.19; Rice: not applicable.

NOTE: These are only estimates. Actual rates may vary.

The three-entity rule is retained. This means a "person" can directly and indirectly receive contract payments, marketing loan gains, and loan deficiency payments through no more than three entities. Producers may assign contract payments and must share the payments on a fair and equitable basis.

Any payments redistributed to eligible owners or producers that come from repayments of advance deficiency payments or refunds of contract payments will not be subject to the $40,000 payment limit. However, such payments cannot exceed $50,000 per "person" for the term of the contract.

Contract Violations

Contracts of owners or producers who violate a requirement of their contract are terminated on each farm in which the owner or producer has an interest. Once terminated, the owner or producer forfeits all rights to future contract payments on each farm and must refund all contract payments received during the period of the violation. However, the Secretary of Agriculture may determine that the violation does not justify termination, in which case the Secretary may require the owner or producer to refund part of the contract payments during the period of the violation, or to accept a reduction in the amount of future contract payments in proportion to the severity of the violation.

An owner or producer who has been foreclosed upon is not required to make contract repayments, if the Secretary determines that forgiving the repayments would be fair and equitable. However, the producer is not eligible for contract payments in subsequent years unless he or she regains control of the contract acreage. The provisions of the contract continue to apply if and when the owner or producer resumes control of the contract acreage which was foreclosed.

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Marketing Assistance Loan Rates for Contract Commodities

Wheat and corn loan rates are tied to historical market prices and current stocks-to-use ratios. However, loan rates for these crops for 1996 through 2002 may not exceed their 1995 level.

Grain sorghum, barley and oat loan rates are set using historical price relationships to corn.

Rice loan rates are frozen at the 1995 level of $6.50 per hundredweight.

Upland cotton loan rates are tied to historical prices, but the loan rate may not be less than $0.50 per pound or more than $0.5192 per pound (the 1995 level).

Loan Rates for Oilseeds and Extra-Long Staple (ELS) Cotton

Soybean and minor oilseed loan rates are tied to previous years' market prices. The loan rate for soybeans must be between $4.92 and $5.26 per bushel, and that for minor oilseeds must be between $8.70 and $9.30 per hundredweight. Extra long staple (ELS) cotton loan rates are also tied to previous years' market prices, but may not be more than 0.7065 cents per pound.

Loan Eligibility

Producers are eligible to receive loans and marketing loan benefits on all production of contract commodities on the farm with a Production Flexibility Contract, even if produced on non-contract acres. However, they must report the acres planted of loan-eligible crops to be eligible for marketing assistance loans and loan deficiency payments. Contract farms cannot be combined with non-contract farms to increase loan eligibility. All producers are eligible for loans and marketing loan benefits on any production of oilseeds. All producers are eligible for loans (but not marketing loan benefits) on any production of ELS cotton.

Interest Rates

Interest rates on commodity loans are increased by one percentage point above the Commodity Credit Corporation's cost of borrowing from the U.S. Treasury. Prior to the 1996 Farm Bill, the interest rate was equal to the Commodity Credit Corporation's cost of borrowing.

For additional data about the Contract Commodities Program, including figures on enrollment and payment amounts for the current Fiscal Year, see the FSA fact sheet entitled "Production Flexibility Contract Data."

For more information, contact your local USDA Farm Service Agency office.