

2007 Rice Loan Rates Q&A's

Background: USDA decided to move to more market-oriented rice loan rates for the 2007 crop in an announcement made on February 2, 2007. In a major change from past methodology, the procedure for determining this year's loan rates incorporated market information by State and type of rice for the past 2 years, as provided by USDA's National Agricultural Statistics Service (NASS) and Agricultural Marketing Service (AMS). The 2002 Farm Bill contained provisions which encouraged USDA to adjust loan rates for a commodity for differences in grade, type, location or other factors when the loan rate relationships are inconsistent with market prices. The following Q&A's were developed to explain the changes made to the 2007 rice loan rates.

Q1. Has USDA adjusted other commodities' class and county/state/region loan rates to maintain consistency with market prices?

A1. Yes. County loan rates for wheat, feed grains and oilseeds were adjusted to reflect updated posted county price (PCP) relationships and statutorily designated national average loan rates for the 2002 and subsequent crops. Regional loan rates were implemented for dry peas (2003 crop) and lentils (2006 crop) to reflect regional price differences. See Table 1 below illustrating a time-line of marketing assistance loan program changes (click on Table 1 bookmark to navigate to Table 1).

[Click on 'Bookmarks' tab on left to show list of bookmarks.]

Q2. How were rice loan rates by class determined previously?

A2. Since the 1987 crop, the long grain whole kernel loan rate was set at \$1 above the medium/short grain whole kernel loan rate. The broken kernel loan rate was established at 50 percent of the long grain whole kernel loan rate. As a result, the national average long grain rough rice loan rate exceeded the medium grain rough rice loan rate on average by about \$0.54 per hundredweight (cwt). Farm-stored loan rates were established using the warehouse-store (milling factor) loan rates and the 5-year Olympic state-level average milling yields.

Q3. Why did USDA reduce long grain loan rates and increase medium/short grain loan rates for the 2007 crop?

A3. Over the 1998-2006 marketing years, medium grain prices have exceeded long grain prices in all but 2 years, Figure 1 and Table 2. The 2002 Farm Bill included provisions to adjust marketing assistance loan rates based on grading and other factors when loan rate relationships are inconsistent with market prices. USDA decided to move toward more market-oriented rice loan rates, and that 5 cents was an appropriate long grain rough rice adjustment for 2007. As a result, the national average long grain loan rate, on a rough basis, dropped from \$6.64 per cwt in 2006 to \$6.59 in 2007.

Q4. Why are some States' 2007-crop farm-stored long grain rough rice loan rates higher than last year while others are lower?

A4. The differences between the national average long grain rough rice loan rate and a state's long grain rough rice loan rate reflect the average difference in prices received by farmers during the last 2 years, as determined by NASS. In the past, only milling quality differences were used to establish state-level farm-stored long grain rough rice loan rates. Farm prices reflect average milling yield differences between states, as well as other market factors that determine its value. This methodology was also used to establish the California and mid-South farm-stored medium grain rough rice loan rates. State-level farm-stored rough rice loan rates for 2007 are compared 2006 rates and recent market price quotes in Table 3 below.

Q5. Do producers who store on farm versus in a warehouse realize a difference in loan proceeds?

A5. Yes. When rice stored in a warehouse is placed under loan, the milling quality and grade of that rice are known and included on the warehouse receipt. The warehouse-stored (milling factor) loan rates and grade discount schedule are used to establish loan proceeds for warehouse-stored rice when it is placed under loan.

Grade and milling quality of farm-stored rough rice are not known. Thus, rough rice loan rates are used to establish loan proceeds on farm-stored loans. Historically, between three-fifths and two-thirds of rice loans are warehouse-stored, with the remainder representing farm-stored loans, Table 4 below.

Q6. Why did the relationships between whole and broken kernel loan rate factors change for the 2007 crop?

A6. This year's whole and broken kernel (milling factor) loan rates are set to reflect the \$0.05 per cwt reduction in the long grain rough rice loan rate compared with the 2006 crop, and to reflect the previous 2-year average market price relationship between broken kernels and long grain whole kernels, as determined using milled and broken kernel prices reported by AMS. Market prices of broken kernels have averaged about two-thirds of the value of long grain rough rice.

Q7. Did the national average all rough rice loan rate change for the 2007 crop?

A7. No. The national average production-weighted rough rice loan rate remains \$6.50 per cwt, as required by statute.

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Table 1. Timeline of Market-Oriented Loan Program Changes

Crop	Program Change	Crop Year	Previous Policy
Wheat	County loan rates (CLRs) are based on the previous 2-year average posted county prices (PCPs). CLRs are set by class (durum, hard red winter, soft red winter, hard red spring, and white).	2002 & subsequent	CLRs were fixed at the same level as the 1995 crop for 1996-2001. Each county loan rate was an all wheat loan rate with the loan repayment rate established by class.
Feed Grains 1/	CLRs are based on the previous 2-year average PCPs.	2002 & subsequent	CLRs were fixed at same level as the 1995 crop for 1996-2001.
Wheat	Durum CLRs are based on the previous 2-year average PCPs.	2003 & subsequent	Durum CLRs were previously established using hard amber durum subclass PCPs.
Dry Peas 2/	Regional loan rates (East, West) reflect differences in prices between distinct production regions.	2003 & subsequent	Dry pea loan rate had previously been a national rate with a national repayment rate.
Lentils 2/	Regional loan rates (East, West) reflect differences in prices between distinct production regions.	2006 & subsequent	Lentil loan rate had previously been a national rate with a national repayment rate.

1/ Feed grains include corn, grain sorghum, barley and oats.

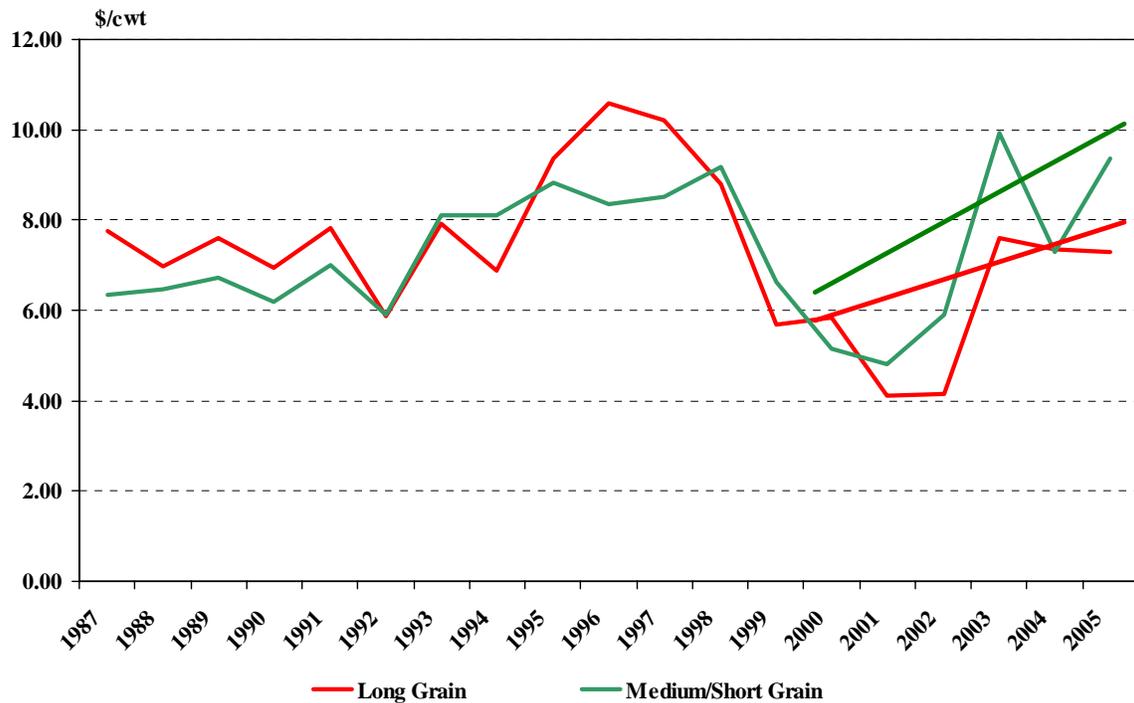
2/ For pulse crops (dry peas, lentils and small chickpeas), the West Region includes the Palouse (Idaho, Oregon and Washington) and other States west of the Rocky Mountains (Alaska, Arizona, California, Hawaii, Nevada, New Mexico, and Utah). The East Region includes Montana, North Dakota, and all other States not in the West Region.

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Table 2. Long Grain Compared with Medium/Short Grain: Loan Rates and Farm Prices

Years	Long Grain to Medium/Short Grain	
	Whole Kernel Loan Rate	Farm Price
1986-90	112 %	112.5%
1991-95	110 %	100.1%
1995-00	110 %	108.3%
2001-05	110 %	82.1 %

Figure 1. Long Grain Compared with Medium/Short Grain Farm Prices



Source: National Agricultural Statistics Service, *Agricultural Prices*, January issue, various years.

Table 3. 2006- and 2007-crop Rough Rice Loan Rates by Class and State

State	2006 loan rate	2007 loan rate	Loan rate difference, 2006-2007	Creed Report 1/ 02/07/07
Long grain:				
Arkansas	6.59	6.45	-0.14	9.64
California	6.48	6.59	+0.11	NA
Louisiana	6.71	6.89	+0.18	9.83
Mississippi	6.68	6.73	+0.05	9.64
Missouri	6.50	6.23	-0.27	9.64
Texas	6.91	7.16	+0.25	10.54
National Average, Long grain	6.64	6.59	-0.05	NA
Medium grain:				
California	6.08	6.26	+0.18	12.03
Mid-South (largely Arkansas)	6.06	5.92	-0.14	11.50
National Average, Medium grain	6.07	6.20	+0.13	NA
Short grain:				
National Average, short grain	6.10	6.28	+0.18	NA

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Table 4. Quantities of Farm and Warehouse Stored Rice Loans: 2002-2006

Year	Warehouse Loans	Farm Loans	Total 1/	Percent in Warehouses	Percent on Farms
	Million Cwts.				
2002	89.5	42.9	132.4	67.6	32.4
2003	66.8	24.3	91.1	73.3	26.7
2004	102.5	44.8	147.3	69.6	30.4
2005	86.9	48.1	135.0	64.4	35.6
2006	54.5	36.9	91.4	59.6	40.4
2002-06	400.3	197.1	597.3	67.0	33.0

1/ Totals may not add due to rounding.