



# FACT SHEET

UNITED STATES DEPARTMENT OF AGRICULTURE  
FARM SERVICE AGENCY

November 2009

## Nonrecourse Marketing Assistance Loans / Loan Deficiency Payments

### Overview

The 2008 Farm Bill reauthorizes nonrecourse marketing assistance loans (MAL) and loan deficiency payment (LDP) and makes them available for the 2008-2012 crops of wheat, corn, grain sorghum, barley, oats, upland cotton, extra-long staple cotton, long grain rice, medium grain rice, soybeans, other oilseeds (including sunflower seed, rapeseed, canola, safflower, flaxseed, mustard seed, crambe and sesame seed), dry peas, lentils, small chickpeas, large chickpeas, graded wool, nongraded wool, mohair, honey and peanuts.

The Fees and Warehouse Storage Credits Applicable to Cotton Loans and Transfers fact sheet provides additional information about MALs for cotton.

MALs and LDPs are marketing tools available to producers beginning upon harvest or shearing. The MAL provides an influx of cash when market prices are typically at harvest-time lows, which allows the producer to delay the sale of the commodity until more favorable market conditions emerge. Allowing producers to store production at harvest or

shearing provides for a more orderly marketing of commodities throughout the year.

MALs for commodities are considered nonrecourse when the MAL can either be redeemed by the repayment of the MAL or by delivering the pledged collateral to the Commodity Credit Corporation (CCC) as full payment for the MAL at maturity. MAL repayment provisions specify, under certain circumstances, that producers may repay MALs at less than loan rate (principal) plus accrued interest and other charges. Alternatively, loan deficiency payment (LDP) provisions specify that, in lieu of securing a MAL, producers may elect to receive an LDP.

MAL repayment and LDP provisions are intended to minimize potential delivery of loan collateral to CCC, accumulation of CCC-owned stocks, storage costs, discrepancies in marketing loan benefits across State and county boundaries, and allow U.S. produced-commodities to be marketed freely and competitively. Accumulating CCC-owned stocks tends to make U.S.-produced commodities less competitive in world markets and can result in

substantial storage costs to taxpayers.

### Producer Eligibility

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

- comply with conservation and wetland protection requirements;
- submit an acreage report to account for all cropland on the farm;
- have and retain beneficial interest in the commodity until the MAL is repaid or CCC takes title to the commodity;
- Meet adjusted gross income limitations described in a later section.

### Commodity Eligibility

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

- have been produced, mechanically harvested or shorn from live animals by an eligible producer and be in storable condition;
- be merchantable for food, feed, or other uses as determined by CCC;
- meet specific CCC minimum grade and quality standards for nonrecourse MALs.

**Beneficial Interest**

A producer retains beneficial interest in the commodity if both of the following remain with the producer:

- Control of the commodity. The producer retains the ability to make all decisions affecting the commodity, including movement, sale, and the request for a MAL or LDP.
- Title to the commodity. The producer has not sold or has not delivered the commodity or warehouse receipt to the buyer. If delivered, title may be considered to be transferred before the producer receives payment for the commodity. For example, title is considered transferred if a producer executes an option to purchase without a provision in the agreement that states that title and control remain with the producer until the buyer exercises the option to purchase and the option to purchase expires at the earlier of:
  - the maturity of any CCC loan secured by such commodity;
  - the date CCC claims title to such commodity; or
  - another date provided in the option.

Once beneficial interest in the commodity is lost, the commodity loses eligibility for a MAL or LDP and remains ineligible even if the producer later regains beneficial interest.

If the commodity is delivered to a buyer, processor, feedlot or mill that rejects the commodity because minimum standards are not met, beneficial interest shall not be considered lost by the producer if the commodity is returned to the producer.

The commodity is not considered rejected if the producer receives a reduced contract price for the commodity.

For further information see the FSA Fact Sheet on Beneficial Interest Requirements For MALs and LDPs, contact a local USDA Service Center, or visit the FSA Web site at [www.fsa.usda.gov](http://www.fsa.usda.gov).

**Nonrecourse Marketing Assistance Loans**

**Loan Rates**

The 2008 Act sets national loan rates at the levels shown in Table 1.

**Table 1. National Loan Rates, 2008-2012 Crops (per production unit) - On Last Page.**

County and regional loan rates are based on each

commodity's national loan rate, and they:

- vary by county or region; and
- are based on the average prices and production of the county or region where the commodity is stored.

**Settling Loans**

MALs mature on the last day of the ninth calendar month following the month in which the MAL is approved. A producer may settle an outstanding nonrecourse MAL:

- before maturity period by repaying the MAL; or
- upon maturity by forfeiting the commodity to CCC.

For all loan eligible commodities (except long and medium grain rice), a producer may repay a MAL any time during the loan period at the lesser of the:

- loan rate plus accrued interest and other charges; or
- alternative loan repayment rates as determined by CCC.

For wheat, feed grains, and oilseeds, the CCC determined county market price is often referred to as the posted county price (PCP). PCPs are established and available

at each local USDA Service Center. PCPs are based upon market prices at appropriate U. S. terminal markets, adjusted to reflect quality and location. PCPs are announced daily for wheat, feed grains, soybeans, canola, flaxseed and sunflower seed; and weekly for other oilseeds.

For peanuts, CCC determines national posted prices for four types of peanuts and announces them weekly. For dry peas, lentils and wool, CCC determines and announces regional posted prices weekly. For mohair, large and small chickpeas, CCC determines and announces a national posted price weekly.

For long and medium grain rice, a producer may repay a MAL any time during the loan period at the lesser of the:

- loan rate plus accrued interest and other charges; or
- adjusted world price (AWP).

The AWP is the prevailing world market price adjusted to U.S. quality and location. AWP's are announced weekly.

### **Marketing Loan Gains**

A producer realizes a marketing loan gain (MLG) if the MAL is repaid at less than the loan

principal. The MLG rate equals the amount by which the applicable loan rate exceeds the MAL repayment rate.

### **Commodity Certificates**

Commodity certificates are available to producers to exchange for 2008 and 2009 crop collateral pledged to CCC for a MAL. Commodity certificates will be available for sale at USDA Service Centers to producers with outstanding nonrecourse MALs. The exchange rate will be the PCP or AWP (long and medium grain rice) on the date the commodity certificate is purchased. Realized gains from the certificate exchange, also called certificate exchange gains, equal the amount by which the loan rate exceeds the repayment rate. Commodity certificate exchanges will not be available when the exchange rate exceeds the applicable loan rate.

For further information, see the FSA Fact Sheet Commodity Certificates, contact a local USDA Service Centers, or visit the FSA Web site at: [www.fsa.usda.gov](http://www.fsa.usda.gov)

Commodity certificates will not be available for exchange for any 2010 through 2012 crop MALs.

### **Loan Premiums and Discounts**

Loan premiums and discounts are determined according to the grade and quality of a specific quantity of a commodity that a producer pledges as loan collateral. Premium and discount schedules vary by commodity and are applied to the loan rate in the county where the commodity is stored. On a per-unit basis, premiums are added to and discounts are subtracted from the loan rate only when the MAL is forfeited to CCC.

### **Interest**

The interest rate charged on a commodity loan is set at 1 percentage point above CCC's cost of borrowing from the U.S. Treasury at the time the loan is made as required by Section 163 of the Federal Agricultural Improvement and Reform Act of 1996 Act. Once a loan is made, the rate is fixed except the interest rate for loans outstanding on January 1 is adjusted to reflect CCC's cost of borrowing on January 1, plus 1 percentage point.

Accrued interest is the amount of interest that accrues while a loan is outstanding, starting with the day the loan is made. Accrued interest is calculated as: (i) the applicable interest rate times (ii) the ratio of the

number of days under loan (starting with the initial day and continuing through the day prior to the day a loan is repaid) to the number of days in a year (i.e., 365) times (iii) the loan principal. Table 2 provides an example of how accrued interest is calculated.

**Table 2. Accrued Interest Calculation Examples - On Last Page.**

**Loan Deficiency Payments (LDP)**

A producer who is eligible to obtain a MAL, but who agrees to forgo the MAL, may obtain an LDP. The LDP rate equals the amount by which the applicable loan rate where the commodity is stored exceeds the effective MAL repayment rate for the respective commodity. The LDP amount equals the LDP rate times the quantity of the commodity for which the LDP is requested. Table 3 provides an example of how MLGs and LDPs are calculated.

**Table 3. Marketing Loan Gain/Loan Deficiency Payment Examples - On Last Page.**

**Other Requirements**

**Production Evidence**

A producer who repays a MAL at less than the loan rate plus accrued interest and other charges or receives an LDP may be subject to a spot check and

must provide production evidence acceptable to CCC, such as evidence of sales, warehouse receipts, or load summary or assembly sheets.

**Final Loan/LDP Availability Dates**

Producers may obtain MALs or receive LDPs on all or part of their eligible production anytime during the loan availability period. The loan availability period runs from when the commodity is normally harvested (or sheared for wool and mohair) until specified dates in the following calendar year. The final loan/LDP availability dates for the respective commodities are listed in Table 4.

**Table 4. Final Loan/LDP Availability Dates by Commodity - On Last Page.**

**Adjusted Gross Income, Payment Limitations and ACRE**

**Adjusted Gross Income Limitation**

A person or legal entity with an average adjusted gross nonfarm income that exceeds \$500,000 is not eligible for MLG's and LDP payments. However, the person or entity is eligible for a MAL, but the MAL must be repaid at principal plus interest, or a commodity certificate may be exchanged for the loan

collateral.

For more information on AGI limitation, see the FSA Fact Sheet entitled, Adjusted Gross Income 2009 and Subsequent Crop Years, contact a local USDA Service Center, or visit the FSA website at [www.fsa.usda.gov](http://www.fsa.usda.gov).

**Payment Limitations**

Beginning with the 2009 crop year and subsequent crop years, CCC will no longer limit payments on benefits associated with MAL or LDP programs.

MLGs and LDPs obtained on 2008 crops are subject to the payment limitation rules in effect for the 2008 crop.

A payment limitation for 2008 crop year on the sum of MLGs and LDPs is subject to a \$75,000-per-person payment limitation as follows:

- \$75,000 total for wheat, corn, grain sorghum, barley, oats, upland cotton, rice, soybeans, other oilseeds, dry peas, lentils, and small chickpeas; and
- \$75,000 total for peanuts, wool, mohair, and honey.

For more information on payment limitations see the FSA Fact Sheet Payment Eligibility and Limitations, or contact a local USDA Service Center, or visit the

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FSA website at [www.fsa.usda.gov](http://www.fsa.usda.gov).

**Average Crop Revenue Election (ACRE)**

MAL rate will be reduced by 30 percent if production comes from a farm participating in the ACRE program. Alternative loan repayment rates will not be adjusted by 30 percent. See Fact Sheet titled ACRE program, or contact a local USDA Service Center, or visit the FSA website at [www.fsa.usda.gov](http://www.fsa.usda.gov).

**More Information**

For more information about FSA programs, contact your local FSA office or USDA Service Center, or visit the World Wide Web at [www.fsa.usda.gov](http://www.fsa.usda.gov).

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**MAL / LDP**

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Table 1

Commodity	Production Unit	2008	2009	2010-2012
Wheat	bushel	\$2.75	\$2.75	\$2.94
Corn	bushel	\$1.95	\$1.95	\$1.95
Grain Sorghum	bushel	\$1.95	\$1.95	\$1.95
Barley	bushel	\$1.85	\$1.85	\$1.95
Oats	bushel	\$1.33	\$1.33	\$1.39
Long Grain Rice	cwt	\$6.50	\$6.50	\$6.50
Medium Grain Rice	cwt	\$6.50	\$6.50	\$6.50
Soybeans	bushel	\$5.00	\$5.00	\$5.00
Other Oilseeds	cwt	\$9.30	\$9.30	\$10.09
Dry Peas	cwt	\$6.22	\$5.40	\$5.40
Lentils	cwt	\$11.72	\$11.28	\$11.28
Small Chickpeas	cwt	\$7.43	\$7.43	\$7.43
Large Chickpeas	cwt	N/A	\$11.28	\$11.28
Wool, graded	pound	\$1.00	\$1.00	\$1.15
Wool, nongraded	pound	\$0.40	\$0.40	\$0.40
Mohair	pound	\$4.20	\$4.20	\$4.20
Honey	pound	\$0.60	\$0.60	\$0.69
Peanuts	ton	\$355.00	\$355.00	\$355.00

Table 2

Facts	Accrued Interest for Loan A		
Applicable Interest	3.150 %		
Loan Principal	\$1,000		
	<i>Scenario 1</i>	<i>Scenario 2</i>	<i>Scenario 3</i>
Days loan outstanding	90	120	150
Days in a year	365	365	365
Accrued Interest	\$7.77	\$10.36	\$12.95

Table 3

County A	MAL Repayment Rate Scenario (\$ per bushel)		
Loan rate	1.95		
	<i>Scenario 1</i>	<i>Scenario 2</i>	<i>Scenario 3</i>
Loan rate plus interest	1.98	1.98	1.98
Effective Posted County Price (PCP)	2.05	1.90	1.98
MLG or LDP rate	0.00	0.05	0.00

\* Does not include accrued interest at \$0.03.

Table 4

Final Loan/LDP Availability Date	Commodity
January 31	Mohair, Peanuts, Wool, and Unshorn Pelts
March 31	Barley, Canola, Crambe, Flaxseed, Honey, Oats, Rapeseed, Sesame seed, and Wheat
May 31	Corn, Dry peas, Grain sorghum, Lentils, Mustard seed, Long grain rice, Medium grain rice, Safflower, Small chickpeas, Large chickpeas, Soybeans, and Sunflower seed