United States
Department of
Agriculture

FARM SERVICE AGENCY

Montana State
Producer Handbook

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Fact Sheet

Nonrecourse Marketing Assistance Loans and Loan Deficiency Payments-

According to the 2008 Farm Bill

Statutory Authority

Sections 1201 through 1209 of the Farm Security and Rural Investment Act of 2008 (2008 Farm Bill), Public Law 107-171, required that a nonrecourse marketing assistance loan and loan deficiency payment (LDP) program be administered for the 2002 through 2008 crops of 24 commodities.

The Farm Service Agency (FSA), on behalf of the Commodity Credit Corporation (CCC), administers nonrecourse marketing assistance loans for wheat, corn, grain sorghum, barley, oats, soybeans, other oilseeds (*sunflower seeds, flaxseed, canola, rapeseed, safflower seed, crambe, sesame and mustard seed*), wool, mohair, honey, small chickpeas, lentils and dry peas. Small chickpeas, lentils and dry peas are referred to as pulse crops.

Market loan repayment and loan deficiency payment provisions apply to each of these commodities.

Commodity loans may be repaid in three ways:

- At the loan rate plus interest costs (CCC interest cost of borrowing from the U.S. Treasury plus 1 percentage point)
- By forfeiting the pledged crop to the CCC at loan maturity
- At the alternative market loan repayment rate.

Purpose

Loans provide eligible producers with interim financing on their eligible production and facilitate the orderly distribution of loan-eligible commodities throughout the year. Instead of selling the crop immediately at harvest, a nonrecourse loan allows a producer who grows an eligible crop to store the production, pledging the crop itself as collateral. The loan proceeds help an eligible producer to pay bills when they come due without having to sell the harvested crop at a time of year when prices tend to be lowest. Later, when market conditions may be more favorable, a producer may sell the crop and repay the loan with the proceeds of the sale.

Marketing assistance loans for each of the 24 commodities are nonrecourse in nature. That is, a producer has the option of delivering to CCC the quantity of a commodity pledged as collateral for a loan as full payment for that loan at loan maturity.

CAUTION: Commodities that are pledged as collateral and are delivered to CCC in lieu of repaying the loan with cash will be discounted in value for low quality the same as they would be if sold in the market place. The producer will owe CCC the cash value of the difference between the discounted value of the commodity and the loan value of the commodity. CCC does not absorb the loss in value due to low quality.

Market loan repayment provisions specify, under certain circumstances that such loans may be repaid by a producer at less than principal plus accrued interest and other charges, with repayment of some portion of the relevant interest and principal being waived. Alternatively, the LDP provisions specify that, in lieu of securing a loan from CCC, a producer may be eligible for an LDP.

Market loan repayment and LDP provisions are intended to prevent delivery of loan collateral to CCC. In so doing, these provisions considerably reduce the Federal Government acquisition of stocks that might otherwise occur. Such stocks tend to make U.S. produced commodities less competitive in world markets and may impose a significant taxpayer burden in the form of storage costs.

The market loan repayment and LDP provisions are discussed below.

Eligibility Requirements

There are a number of eligibility requirements for marketing assistance loans and loan deficiency payments which are related to either the producer, the commodity, or other commodity program provisions.

Beneficial Interest: A producer retains beneficial interest in a quantity of a commodity if all of the following remain with the producer:

- Control of the commodity;
- Risk of loss; and
- Title to the commodity.

For loans, a producer must retain beneficial interest in the commodity from the time of planting through the date the loan is redeemed or CCC takes title to the commodity. For LDP's, a producer must retain beneficial interest in the commodity from the time of planting through the date the LDP is requested. Once beneficial interest in a commodity is lost, the commodity remains ineligible for a loan or an LDP even if a producer regains control, risk of loss, and title. For further information on beneficial interest, see the Farm Program Fact Sheet on "*Beneficial Interest Requirements for Loans and Loan Deficiency Payments*" or contact a local county FSA office.

Grade and Quality: The quantity of a commodity pledged as collateral for nonrecourse loan must satisfy CCC's minimum grade and quality requirements.

Conservation and Wetland Protection: To be eligible for commodity loans, a producer must comply with applicable conservation and wetland protection requirements.

Controlled Substances: A producer convicted under Federal or State law of planting, cultivating, growing, producing, harvesting, possessing or storing a controlled substance is ineligible for commodity loans for that crop year and for the succeeding 4 crop years.

Foreign Persons: A foreign individual (person or entity) is eligible provided the individual satisfies FSA's requirements for "person" and "actively engaged" determinations as they apply to a foreign individual.

Use of Cropland Acres: The producer must annually report crop acreage and how the cropland acres are used on the farm.

Loan Rates

Farm Bill 2002 fixed loan rates in legislation. See table below:

Marketing Assistant Loan Rates

	2004-08
Wheat	$2.75/bu
Corn	$1.95/bu
Grain Sorghum	$1.95/bu
Barley	$1.85/bu
Oats	$1.33/bu
Soybeans	$5.00/bu
Other Oilseeds	$0.093/lb
Graded Wool	$1.00/lb
Nongraded Wool	$0.40/lb
Mohair	$4.20/lb
Honey	$0.60/lb
Small Chickpeas	$7.43/cwt
Lentils	$11.72/cwt
Dry Peas	$6.22/cwt

Wheat, feed grains, soybeans, and other oilseeds have county based loan rates factored back to the National Loan Rates. All other listed commodities have either regional loan rates or use the National Loan Rate.

Market Loan Repayment Provisions

Wool, mohair, honey, and pulse crops are the same as above except wool and mohair will be regional rates posted weekly for region 2 at: http://www.fsa.usda.gov/dafp/psd/MKTPRICLEAN2.htm and for region 3 at: http://www.fsa.usda.gov/dafp/psd/MKTPRICLEAN3.htm, honey will be a National Rate posted monthly at: http://www.fsa.usda.gov/ao/epas/dsa/honeyprice.htm, and pulse crops, now regional, will be National Rates posted weekly at http://www.fsa.usda.gov/dafp/psd/Pulses.htm.

Market loan rates allow producers to repay commodity loans at a rate that is less than the original loan rate plus interest when market prices are below commodity loan rates.

Market loan repayment rates are based on local, posted county prices (PCPs) for wheat, feed grains, oilseeds, wool, mohair, honey, small chickpeas, lentils, and dry peas. PCPs are calculated (and posted) by the government each day the Federal Government is open, except for oilseeds which are calculated weekly. The PCP reflects price changes in major terminal grain markets (of which there are 18 in the country) corrected for the cost of transporting grain from the county to the terminal.

Premiums and Discounts

Premiums and discounts are determined according to the grade and quality of a specific quantity of a commodity that a producer pledges as collateral for a loan. Premium and discount schedules vary considerably by commodity. Generally, premiums and discounts will not be applied to farm stored loans except at the time of settlement for loans delivered to CCC in lieu of cash repayment. Premiums and discounts will always be applied to warehouse stored loans.

On a per-unit basis, premiums are added to and discounts are subtracted from the loan rate relevant to the location where the collateral is stored at the time a loan is made. The same premiums and discounts, which are applied to the loan rate of a given loan, are also used in the loan repayment rate determination when a producer chooses to repay a loan.

Interest

The interest rate charged on a commodity loan is set at one percentage point above CCC's cost of borrowing from the U.S. Treasury at the time the loan is made. Once a loan is made, the rate is fixed except that the interest rate for loans outstanding on January 1 is adjusted to reflect CCC's cost of borrowing on January 1, plus one 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 principle.

Final Loan Availability Date

Loans and LDP's are available for eligible commodities from the time of harvest until the final loan availability date.

Final Availability Dates:

- Wheat, barley, oats, canola, rapeseed, honey, crambe and flaxseed, the final loan availability date is March 31 following the year in which the crop is typically harvested.
- Wool and mohair and unshorn pelts - the final loan availability date is January 31 of the following year.
- The final loan/LDP availability date for Corn, Dry peas, Grain sorghum, Lentils, Mustard seed, Safflower seed, Small chickpeas, Soybeans, and Sunflower seed – is May 31 of the following year.

Loan Maturity

Statutory language requires that commodity loans mature on the last day of the ninth month following the month in which the loan is made. Note that a loan is outstanding if a producer has secured the loan from CCC, but has not settled the loan, either through repayment or delivery of the collateral to CCC.

The Secretary of Agriculture does not have explicit authority to extend any marketing assistance loan beyond the loan maturity date. A producer may repay a loan anytime after the loan is made through that loan's maturity date. The quantity of a commodity pledged as collateral for a loan may not be delivered to CCC in lieu of repayment prior to loan maturity.

In general, the alternative repayment rate is equal to CCC's estimate of a competitive market price.

In the case of wheat, feed grains, oilseeds, wool, mohair, honey, small chickpeas, lentils, and dry peas the alternative repayment rate is commonly known as the posted county price (PCP) and reflects CCC's estimate of local market price for each of the relevant commodities. The actual loan repayment rate is determined as the lesser of the difference between the PCP and the loan rate or the applicable loan rate plus accrued interest and other charges. Because the value of wheat may vary considerably among the various classes of wheat, CCC announces separate PCP's for each of 5 classes (durum, hard red winter, soft red winter, hard red spring, and soft white).

Loan Deficiency Payment Provisions

Alternatively, eligible farmers may choose to receive marketing loan benefits through direct loan deficiency payments (LDP) when market prices are lower than commodity loan rates. The LDP option allows the producer to receive the benefits of the marketing loan program without having to take out and subsequently repay a commodity loan. The LDP rate is the amount by which the loan rate exceeds the posted county price or prevailing world market price and thus is equivalent to the marketing loan gain that could alternatively be obtained for crops under loan. When an LDP is paid on a portion of the crop, that portion cannot subsequently be used as collateral for another marketing loan or LDP.

Producers who elect to use acreage planted to wheat, barley, oats or triticale for the grazing of livestock are eligible to receive "graze-out" payments in lieu of loan deficiency payments. The payment quantity is determined by multiplying the acreage grazed times the payment yield for direct payments for that covered commodity on the farm. LDPs for triticale use the grazing payment rate and payment yield for wheat on the farm. If there is no wheat yield on the farm, the payment will be constructed based on yields on comparable wheat farms.

Premiums and discounts are not considered when determining the LDP rate. LDP provisions are in effect for a given loan-eligible quantity of a commodity until the final loan availability date for that commodity.

Unshorn pelts (wool), hay, and silage are also eligible for LDPs.

Payment Limitations

The payment limit on marketing loan gains and loan deficiency payments is $75,000 per person, per crop year. Outstanding loans prepaid by the use of commodity certificates, do not affect the $75,000 payment limitation. Producers with adjusted gross income over $2.5 million averaged over three years, are not eligible for payments, unless more that 75% of adjusted gross income is from agriculture.

Economic Implications

When commodity prices are below commodity loan rates, loan benefits augment market receipts. The IRS report Analysis of the U.S. Commodity Loan Program with Marketing Loan Provisions shows that impacts of marketing loans vary year by year, depending on the absolute and relative magnitudes of expected crop-specific marketing loan benefits. When prices are low, marketing loans can create incentives to produce specific crops.

For More Information

For more information about this or any other FSA program, contact your FSA local office, or visit Montana FSA's home page at: http://www.fsa.usda.gov/mt

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