

For: State and County Offices

Additional Loan and LDP Provisions for 1998-Crop Commodities

Approved by: Deputy Administrator, Farm Programs

Richard O. Swanson

1 Overview

A

Background

Notice LP-1661 was issued on September 11, 1998, to revise policy for determining loan and LDP eligibility. This notice obsoletes Notice LP-1661 and provides revised commodity eligibility policies for marketing assistance loans and LDP's.

The Federal Agriculture Improvement and Reform Act of 1996 (The Act), Section 131 provides the following:

- the Secretary of Agriculture shall make available to producers on a farm nonrecourse marketing assistance loans for loan commodities produced on a farm
- eligible production for contract commodities includes any production by a producer on a farm containing eligible cropland covered by a production flexibility contract
- eligible production for extra long staple cotton and oilseeds is any production.

Section 135 provides for the Secretary to make available LDP's to producers who although eligible to obtain a marketing assistance loan agree to forgo obtaining the loan. Extra long staple cotton is not eligible to receive LDP.

The Act was designed to reduce the government's role in the producer's management decisions. The nonrecourse marketing assistance loan and LDP program policies should be neutral to the marketing decisions of the producer.

Continued on the next page

<p>Disposal Date</p> <p>October 1, 1999</p>	<p>Distribution</p> <p>State Offices; State Offices relay to County Offices</p>
--	--

Notice LP-1663

1 Overview (Continued)

B

Purpose

This notice provides new policies for loan and LDP eligibility to implement the intent of the Act.

C

STC and COC Responsibilities

This notice provides STC and COC with a major role and new responsibilities in determining, reviewing, and approving certain determinations which affect many producers, such as determining whole kernel grain yields for producers who harvest crops as other than grain.

STC's should play an active role in providing guidance to COC's to ensure that responsible and equitable determinations are made. In turn, COC's are being given much greater responsibility to ensure that the actual production determinations fairly reflect what a producer's anticipated yield would have been had that actual crop been harvested as grain. With this responsibility also comes the accountability to protect the program integrity by also ensuring that these determinations are not made in an unrealistic manner but are well documented and can be supported when reviewed by auditors.

STC's and COC's are in the best position to know what production levels or practices are reasonable for their area. This responsibility is being entrusted to STC's and COC's to deliver the program in the most feasible, reasonable and reliable manner possible.

2 Nonrecourse Marketing Assistance Loans and LDP's

A

General

CCC shall make available:

- warehouse-stored and farm-stored nonrecourse loans for contract commodities produced on a farm with a production flexibility contract (PFC) or any production of extra long staple cotton and oilseeds
 - LDP's on actual production of contract commodities produced on a farm with PFC, or any actual production of oilseeds.
-

Continued on the next page

Notice LP-1663

2 Nonrecourse Marketing Assistance Loans and LDP's (Continued)

A

General (Continued)

Commodity quality eligibility requirements are no longer in effect. All other eligibility requirements remain in place.

Recourse loan provisions may still apply.

Loan rate adjustments will be used to minimize the potential of forfeiture to CCC of commodities ineligible for warehouse-stored loans. These adjustments will provide an incentive to the producer to request an LDP and agree to forgo the loan on these commodities of questionable value to CCC.

B

Effective Date

The changes included in this notice are effective for all 1998 and subsequent crops eligible for a marketing assistance loan.

C

Commodity Definitions

Contract commodities include wheat, corn, grain sorghum, barley, oats, rice, and upland cotton.

Oilseeds include soybeans, sunflower seed, rapeseed, canola, safflower, flaxseed, or mustard seed.

Wheat, feed grains, canola, flaxseed, soybeans, and sunflower seed shall meet the definitions included in Official U.S. Grain Standards. Rice shall meet the definitions included in Official U.S. Rice Standards. Oilseeds not identified above shall meet the minimum standards for applicable oilseeds according to 2-LP Grains and Oilseeds.

D

HM Commodities

HM commodities below a set maximum moisture level shall be eligible for nonrecourse marketing assistance loans and loan deficiency payments. STC shall set the maximum acceptable moisture levels.

Commodities exceeding the STC set moisture level shall only be eligible for recourse loans.

Quantities on HM commodities shall be adjusted to reflect CCC's established acceptable moisture levels for loans and LDP's.

Continued on the next page

Notice LP-1663

2 Nonrecourse Marketing Assistance Loans and LDP's (Continued)

E

Commodities Harvested as Other Than Grain

Commodities harvested as silage, ensilage, cobbage, hay, cracked, rolled, or crimped, or using machinery that either mutilates the grain or mixes the grain with other parts of the plant that produced the commodity shall be eligible for a farm-stored nonrecourse marketing assistance loan or LDP.

The commodity harvested as other than grain shall:

- be adjusted to a whole grain equivalent
- be discounted **to** 30 percent of the base county loan rate for commodities pledged as collateral for nonrecourse loan

Example: If the loan rate is \$1.89, the discounted loan rate is 57 cents.

- receive an LDP using the applicable base county loan rate.

LDP's will be made on actual production. STC will be given some discretion in determining whole grain equivalent for commodities harvested as other than grain.

F

Commodities Ineligible for Warehouse-Stored Loans

Commodities that do not meet warehouse-stored loan standards shall be eligible for a nonrecourse marketing assistance loan or LDP.

These types of commodities pledged as collateral for loan will be discounted **to** 20 percent of the base county loan rate. The applicable additional discounts shall not be applied to the loan rate.

Example: If the loan rate is \$1.89, the discounted loan rate is 38 cents.

Continued on the next page

Notice LP-1663

2 Nonrecourse Marketing Assistance Loans and LDP's (Continued)

**G
Contaminated
Commodities**

Contaminated commodities:

- shall be eligible for nonrecourse marketing assistance loans and LDP's
- exceeding acceptable levels of contamination pledged as collateral for nonrecourse loan, will be discounted **to** 10 percent of the base county loan rate.

Example: If the loan rate is \$1.89, the discounted loan rate is 19 cents.

Contaminant testing will not be required for commodities to receive an LDP.

3 HM Commodities

**A
Eligibility**

HM commodities are defined as commodities with moisture levels exceeding applicable standard moisture levels.

HM commodities produced on a farm with PFC, or oilseeds harvested in a high moisture state, at or below moisture levels determined by STC, shall be eligible for LDP or nonrecourse marketing assistance loan.

**B
Nonrecourse
Loans**

The quantity for which a nonrecourse loan is requested with moisture levels equal to or less than the moisture level determined by STC shall be:

- adjusted to reflect the applicable standard moisture level, according to 2-LP Grains and Oilseeds
- stored in eligible storage according to 6-LP, paragraph 306.

The producer's intention to dry and availability of drying facilities are no longer applicable.

Continued on the next page

Notice LP-1663

3 HM Commodities (Continued)

C

Recourse Loans

Quantities harvested at a moisture level exceeding the moisture level determined by STC are eligible for **recourse** loans only.

Complete HM recourse loans according to 6-LP, paragraph 925.

Enter "REC" as the class code when recording the loan in APSS.

D

LDP's

LDP's may be requested using either CCC-709 or CCC-666 LDP, as applicable. LDP's are not available on quantities with moisture levels exceeding the moisture level determined by STC.

The LDP quantity with moisture levels equal to or less than the moisture level determined by STC shall be adjusted to reflect the applicable standard moisture level, according to 6-LP, paragraph 356.

When processing the LDP in APSS, do **not** enter "Y" to the question, "Is this High Moisture?", on Screen PGA10005, for measured LDP's, or Screen PGA10010, for certified LDP's.

E

Production Evidence

Require production evidence for LDP's according to 6-LP, paragraph 356 and for loan quantities repaid at a rate less than principal according to 7-LP, paragraph 700.

Exception: For commodities stored in structures that cannot be measured and the producer cannot provide scale tickets according to 6-LP, subparagraph 356 G, determine the production according to the commodities harvested as other than grain maximum eligible quantity determinations in subparagraph 4 E.

- Set 1 yield to cover both commodities harvested as other than grain and whole grain production stored in structures that cannot be measured and the producer cannot provide scale tickets.
 - Obtain sum of acres harvested as other than grain and grain stored in structures that cannot be measured and the producer cannot provide scale tickets.
-

Continued on the next page

Notice LP-1663

3 HM Commodities (Continued)

F

Setting Moisture Levels

STC's must set moisture levels for each commodity to determine moisture levels eligible for nonrecourse loan and LDP's.

Documentation used to establish the maximum acceptable moisture levels must be kept on file in the State Office.

4 Commodities Harvested as Other Than Grain

A

Eligibility

Contract commodities produced on a farm with PFC, or oilseeds, harvested as silage, ensilage, hay, cobbage, cracked, rolled, or crimped, or using machinery that either mutilates the grain or mixes the grain with other parts of the plant that produced the commodity shall be eligible for a farm-stored nonrecourse marketing assistance loan or LDP.

The commodities must be harvested. Grazing is not considered harvested and not eligible.

B

Nonrecourse Loans

Nonrecourse loans may be requested as a certified farm-stored loan according to 6-LP, paragraph 502. The producer may request loan on any portion of the maximum eligible quantity determined according to subparagraph E.

The commodity harvested as other than grain and pledged as collateral for a nonrecourse loan must be stored in an approved storage structure according to 6-LP, subparagraph 306 A.

C

LDP's

LDP's may be requested using either CCC-709 or CCC-666-LDP, as applicable.

The producer may request LDP, not to exceed maximum eligible quantity, on:

- **all** commodity harvested as other than grain
 - number of acres harvested as other than grain
 - percentage of production harvested as other than grain.
-

Continued on the next page

Notice LP-1663

4 Commodities Harvested as Other Than Grain (Continued)

D

Loan Rates

For LDP's, use the applicable county loan rate to determine the LDP rate.

For nonrecourse loans, the loan rate shall be 30 percent of the base county loan rate. Loan repayments shall be calculated at principal plus interest.

E

**Determining
Maximum
Eligible Quantity**

The maximum quantity of commodities harvested as other than grain eligible for loan or LDP shall be determined as follows.

Step	Action
1	Obtain acres harvested as other than grain from FSA-578. Additional instructions for revising FSA-578 will be provided in a future CP notice.
2	Establish a reasonable production yield from: <ul style="list-style-type: none">• all 1998 crop comparable, actual production harvested as grain on the same farm, if available• if whole grain was not harvested, set a yield based upon 1998 crop comparable, actual production on 3 similar farms• if 3 similar farms are not available, COC shall establish a yield. STC shall establish guidelines for COC to use in establishing the yield. COC shall exercise judgement and rely on their knowledge of practices and growing conditions. <p>Note: Crop appraisals shall not be used to establish yields.</p>
3	Calculate maximum eligible quantity for commodities harvested as other than grain by multiplying acres harvested times yield.
4	Obtain COC approval of the maximum eligible quantities.

County Offices shall maintain a ledger on each producer receiving loans or LDP's on commodities harvested as other than grain. Apply the loan or LDP quantities against the maximum eligible quantity. Do not allow the producer to receive loan or LDP on quantities in excess of maximum eligible quantity.

Continued on the next page

Notice LP-1663

4 Commodities Harvested as Other Than Grain (Continued)

**F
Production
Evidence**

The quantity determined according to subparagraph E shall be considered production evidence for CCC-666 LDP and CCC-709, farm processor direct quantities.

Require acceptable production evidence according to 7-LP, paragraph 700 on those quantities sold and covered by CCC-709. Use the production evidence for the delivery date upon which to base the LDP rate.

Do not make quantity adjustments based upon production evidence provided.

**G
Processing Loans
or LDP's**

Do not disburse loans or LDP's until the quantity determination in subparagraph E is completed.

For each field direct CCC-709, upon receipt of acceptable production evidence:

- calculate quantities delivered each day as follows:
 - total all quantity delivered from production evidence
 - calculate a percentage of total production delivered on each delivery date
 - multiply the total quantity covered by CCC-709 by the applicable day's percentage of delivered production
- use the LDP rate in effect on each date of delivery.

See Exhibit 1 for examples of determining the percentage of each day's production delivered.

Process LDP manually as a field direct, farm processor direct, or certified LDP according to 12-PS, Part 15, until software is enhanced to add a new class code for these commodities.

For loans, process manually as a certified farm-stored loan according to 12-PS, Part 3, until software is enhanced to add a new class code for these commodities.

**H
Settlement
Values**

Contact PSD if the producer intends to deliver the commodity in satisfaction of the loan.

Notice LP-1663

5 Commodities Ineligible for Warehouse Stored Loan

A

Eligibility

Commodities that do not meet the warehouse-stored standards shall be eligible for an LDP or nonrecourse marketing assistance loan.

B

Loan Rates

For LDP's, use the applicable county loan rate to determine the LDP rate.

For nonrecourse loans, the loan rate shall be 20 percent of the base county loan rate. Do not apply any additional discounts. Loan repayments shall be calculated at principal plus interest.

Follow 12-PS, Part 3. Enter a State and County code of "99 999" on Screen PLB11015, for certified loans, or Screen PLB12005, for measured loans. When prompted, enter the adjusted loan rate.

C

**Settlement
Values**

For settlement of nonrecourse farm-stored loans, any quantity delivered to CCC will be adjusted based upon the established schedules of premiums and discounts and the additional schedule of discounts.

Notice LP-1663

6 Contaminated Commodities

A

Eligibility

Contaminated commodities shall be eligible for a nonrecourse marketing assistance loan or LDP.

B

Testing Requirements

For a commodity to be pledged for loan in areas designated according to 6-LP, paragraph 328, require the producer to:

- have the commodity tested at his own expense
- provide the County Office with the test results.

Contaminant testing is not required for a commodity to receive an LDP.

C

Loan Rates

For nonrecourse loans, the loan rate shall be for:

- commodities testing within the acceptable levels as specified in 6-LP, paragraph 328, the base county loan rate
- commodities exceeding the acceptable level, 10 percent of the base county loan rate. Loan repayments shall be calculated at principal plus interest.

For LDP's, use the base county loan rate, as applicable.

D

Settlement Values

For contaminated commodities exceeding acceptable levels delivered to CCC, the settlement value shall be adjusted according to the schedule of premiums and discounts and the additional schedule of discounts.

E

Adjusting the Loan Rate

Follow 12-PS, Part 3. Enter a State and County code of "99 999" on Screen PLB11015, for certified loans, or Screen PLB12005, for measured loans. When prompted, enter the adjusted loan rate.

Notice LP-1663

7 Action

A State Office

State Offices shall:

- immediately publicize the contents of this notice to the maximum extent possible
 - instruct County Offices to immediately notify producers of the contents of this notice using all available sources
 - by COB **Friday, September 25, 1998**, notify PSD by FAX of the actions taken and sources used to publicize the contents of this notice. PSD FAX number is 202-690-3307. FAX messages should be addressed to the attention of Harold Connor, Deputy Director. Negative reports are required.
-

B County Office

For producers who were not afforded these opportunities because they harvested an ineligible commodity and have sold or fed their production before these policy changes were made, County Offices shall:

- allow producers to request an LDP using CCC-666 LDP
- for fed production, allow producers to certify to date of harvest and quantity
- for sold production, obtain date of delivery and quantity from production evidence
- use the LDP rate in effect on the date of delivery or harvest
- obtain COC approval of all quantities and harvest dates
- calculate LDP using the effective LDP rate for the applicable quantities.

For contaminated commodities previously ineligible, disposed of, and no production evidence exists, producers may report the quantities and applicable harvest dates. COC shall review and approve the reported quantities to determine the reasonableness. County Offices shall calculate LDP's using the harvest date to determine the LDP rate and reported quantities.

For producers who had commodities that were eligible for LDP since the date of harvest and there was no LDP rate available on the date of LDP request, delivery, or sale, the provisions in this notice are not applicable.

Notice LP-1663

7 Action (Continued)

C

Notification

County Offices shall immediately notify producers of the contents of this notice using all available methods.

D

Obsolete Notice

Notice LP-1661 is obsolete.

Examples of Field Direct LDP on Commodities Harvested as Other Than Grain

Example 1: Producer A has CCC-709 in place for **all** corn harvested as other than grain. After Producer A completes grain harvest, a maximum quantity eligible is determined by multiplying 138 bushels (actual yield from whole grain production) times 125 acres harvested as other than grain, resulting in 17,250 bushels of actual production for commodities harvested as other than grain.

Producer A delivers **all** corn silage to a feedlot and submits production evidence showing the following.

Delivery Date	Net Quantity
09/12/98	400 tons
09/13/98	385 tons
09/14/98	425 tons
09/15/98	478 tons
09/17/98	398 tons
Total	2,086 tons

Calculate the field direct LDP payment as follows.

Date	LDP Rate	Daily Delivery Percentage	Payment Quantity (% of 17,250)	Payment Amount
09/12/98	\$.28	(400/2086) 19%	3,278	917.84
09/13/98	\$.28	(385/2086) 19%	3,278	917.84
09/14/98	\$.25	(425/2086) 20%	3,450	862.50
09/15/98	\$.26	(478/2086) 23%	3,968	1031.68
19/17/98	\$.27	(398/2086) 19%	3,276	884.52
Total				\$4,614.38

Continued on the next page

Examples of Field Direct LDP on Commodities Harvested as Other Than Grain (Continued)

Example 2: Producer A has CCC-709 in place for 50 percent of corn harvested as other than grain. After Producer A completes grain harvest, a maximum quantity eligible is determined by multiplying 138 bushels (actual yield from whole grain production) times 125 acres harvested as other than grain, resulting in 17,250 bushels of actual production for commodities harvested as other than grain. The quantity for this payment shall be 8,625 (50 percent of 17,250). The remaining quantity shall be eligible for a subsequent loan or LDP.

Producer A delivers 50 percent of corn silage to a feedlot and submits production evidence showing the following.

Delivery Date	Net Quantity
09/12/98	400 tons
09/13/98	385 tons
09/14/98	225 tons
Total	1,010 tons

Calculate the field direct LDP payment as follows.

Date	LDP Rate	Daily Delivery Percentage	Payment Quantity (% of 8,625)	Payment Amount
09/12/98	\$.28	(400/1010) 40%	3,450	966.00
09/13/98	\$.28	(385/1010) 38%	3,278	917.84
09/14/98	\$.25	(225/1010) 22%	1,898	474.50
Total				\$2,358.34