Nonrecourse Marketing Assistance Loans and Loan Deficiency Payments

by Chad Hart

The Federal Agriculture Improvement and Reform Act of 1996 (the 1996 FAIR Act) initiated a nonrecourse marketing assistance loans and loan deficiency payments (LDP) program for 16 crops, including corn and soybeans. The purpose of this program is to provide producers a financial tool to help farmers market their crops throughout the year. The nonrecourse loans allow farmers to store production and sell it when market conditions are favorable. The crop is employed as collateral for the loan. The loans are nonrecourse in that the farmer has the option of repaying the loan by delivering the crop to the Commodity Credit Corporation at loan maturity.

Under certain conditions, the loan may be paid back at less than the principal plus interest and expenses or in lieu of taking a loan, a LDP may be collected. The LDP for a county is determined by comparing the county's loan rate and posted county price (PCP). If the PCP is below the loan rate, then producers are eligible for LDPs. The payment amount is the difference between the loan rate and the PCP. Unlike the loan, the LDP is not repaid.

The county loan rate is derived from the national loan rate and a twelve-month average PCP. Production data and distance to the terminal markets is also taken in account in the setting of the loan rate. The PCP is a price formulated to reflect actual market conditions in the county. It is based on terminal market prices. Price adjustments are made by county and reflect market and transportation factors. The loan rate is set once a year. The price adjustments are rarely changed, but the PCP and the LDP rate change daily.

For example, for Story County, Iowa, the corn loan rate is $1.76/bushel. The terminal markets used to calculate the PCP are the Gulf (GLF) and Kansas City, Missouri (KCM) markets. The price differentials (adjustments) are -$0.57/bushel for the GLF price and -$0.33/bushel for the KCM price. The daily market prices are reported on the Internet at . If more than one terminal price is used, the PCP is set as the highest of the adjusted terminal prices. The following table shows the calculations of the PCPs and LDPs for two hypothetical cases.

	Lower Prices	Higher Prices
GLF Price	$2.10	$3.09
GLF Differential	-$0.57	-$0.57
PCP based on GLF	$1.53	$2.52
KCM Price	$1.71	$2.70
KCM Differential	-$0.33	-$0.33
PCP based on KCM	$1.38	$2.37
Effective PCP	$1.53	$2.52
County Loan Rate	$1.76	$1.76

LDP Rate	$0.23	$0.00

For more information on this program, see the following Internet sites:

- USDA, Price Support Division, Commodity Loan Program
- ProFarmer's LDP and Marketing Loan Gain Question and Answer

Other documents available on this subject can be found at:

- USDA Price Support Division Program Information

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