FACT SHEET

UNITED STATES DEPARTMENT OF AGRICULTURE
FARM SERVICE AGENCY

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Nonrecourse Marketing Assistance Loans and Loan Deficiency Payments

Overview

The Food, Conservation, and Energy Act of 2008 (the 2008 farm bill) authorizes nonrecourse marketing assistance loans (MALs) and loan deficiency payment (LDPs) 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 and nongraded wool, mohair, honey, unshorn pelts and peanuts. The American Taxpayer Relief Act of 2012 extends the MAL and LDP provisions from the 2008 Farm Bill to the 2013 crop year; however, mohair is not eligible for 2013 MALs or LDPs, as required by Continuing Appropriations Resolution, 2013.

See the fact sheet Fees and Warehouse Storage Credits Applicable to Cotton Loans and Transfers for 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 as the MAL can either be redeemed by repayment 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 at less than the 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 all farms;
- 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 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:

1. The maturity of any CCC loan secured by such commodity;
2. The date CCC claims title to such commodity or;
3. 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.

Loan Rates

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

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, 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 and lentils, CCC determines and announces regional posted prices weekly. For wool and large and small chickpeas, CCC determines and announces a national posted price weekly. For honey, CCC determines and announces the national survey price monthly.

For long and medium grain rice and cotton, 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. AWPs 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.

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, except for the commodities of cotton and peanuts.

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 as required by Section 163 of the Federal Agricultural Improvement and Reform Act of 1996. After a loan is made, the rate is fixed except the interest rate for loans outstanding on Jan. 1 is adjusted to reflect CCC's cost of borrowing on Jan. 1, plus one percentage point.

Accrued interest is the amount of interest that accumulates while a loan is outstanding, starting with the day the loan is made. Accrued interest is calculated by multiplying: (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

Loan Deficiency Payments (LDP)

A producer who is eligible to obtain a MAL, but who agrees to forgo the MAL, may obtain an LDP under certain market conditions. 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.

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) until specified dates in the following calendar year. The final loan/LDP availability dates for the respective commodities are listed in Table 4.

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 or LDP payments, but is eligible for a MAL; however, the MAL must be repaid at principal plus interest.

For more information on AGI limitation, view 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.

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.

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. The LDP rate for commodities produced on farms enrolled in ACRE must include the 30 percent reduction from the MAL rate before determining the LDP rate. See fact sheet entitled ACRE Program, or contact a local USDA Service Center, or visit the FSA website at www.fsa.usda.gov.

More Information

For more information about FSA programs, contact the local FSA office or USDA Service Center, or visit the website at www.fsa.usda.gov.

Table 1. National Loan Rates, 2008-2013 Crops

	Production Unit	2008	2009	2010-2013
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
ELS Cotton	pound	$0.7977	$.07977	$.07977
Upland Cotton	pound	$0.52	$0.52	$0.52
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
Honey	pound	$0.60	$0.60	$0.69
Peanuts	ton	$355.00	$355.00	$355.00

Table 2. Accrued Interest Calculation Examples

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

Table 3. Marketing Loan Gain/Loan Deficiency Payment Examples

County A	MAL Repayment Rate Scenario ($ per bushel)		
Loan rate	1.95		
	Scenario 1	*Scenario 2*	*Scenario 3*
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.

Table 4. Final Loan/LDP Availability Dates by Commodity

Final Loan/LDP Availability Date	Commodity
Jan. 31	Peanuts, Wool and LDP only for 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, Cotton, Soybeans and Sunflower seed