USDA

UNITED STATES DEPARTMENT OF AGRICULTURE
FARM SERVICE AGENCY

2014 Farm Bill

FACT SHEET

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Nonrecourse Marketing Assistance Loans and Loan Deficiency Payments

OVERVIEW

The Agricultural Act of 2014 (2014 Farm Bill) authorizes nonrecourse marketing assistance loans (MALs) and loan deficiency payments (LDPs) for 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, unshorn pelts, honey and peanuts.

MALs and LDPs are marketing tools available to producers beginning upon harvest or shearing. The MAL provides interim financing at harvest time for to help agricultural producers to meet cash flow needs without having to sell their commodities when market prices are typically at harvest-time lows, allowing the producer to delay the sale of the commodity until more favorable market conditions emerge. Allowing producers to store production at harvest (or at shearing in the case of wool and mohair) also provides for a more orderly marketing of commodities throughout the year.

MALs for commodities are considered “nonrecourse” because the loan can be redeemed by repayment, or by delivering the agricultural commodity that was pledged as collateral to the Commodity Credit Corporation (CCC) as full payment for the loan upon maturity.

MAL repayment provisions specify that, under certain circumstances, producers may repay at less than the loan rate (principal) plus accrued interest and other charges. Alternatively, 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, storage, and related costs of agricultural commodities to CCC. The provisions also are designed to avoid discrepancies in marketing loan benefits across state and county boundaries and to allow U.S.-produced commodities to be marketed freely and competitively.

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; and
- 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; and
- 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.

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 1**.

NONRECOURSE MARKETING ASSISTANCE LOANS

Loan Rates

The 2014 Farm Bill sets national loan rates at the levels shown in **Table 2**.

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.

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 for all loan commodities except cotton and peanuts for which premiums and discounts are applied at the time a loan is made.

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 3** provides an example of how accrued interest is calculated.

Loan Settlement

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 extra-long staple (ELS) 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;
- Alternative loan repayment rate as determined by CCC.

For wheat, feed grains and oilseeds, the CCC-determined alternative loan repayment rate 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 (NPP) 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 upland 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. Separate AWPs for long grain, medium grain rice and upland cotton are announced weekly.

Commodity Certificate Exchange

Commodity certificates are available to producers, beginning with the 2015 crop, to exchange 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 AWP for upland cotton or rice, the NPP for peanuts, or the PCP for other commodities, as applicable on the date the commodity certificate is purchased. Realized gains from the 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. Payment limitation provisions do not apply to commodity certificate exchanges.

For further information, see the Commodity Certificate Exchange (CCE) fact sheet at **www.fsa.usda.gov/factsheets**, contact a local USDA service center or visit the FSA website at **www.fsa.usda.gov/pricesupport**.

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 loan gains realized from the commodity certificate exchange are not subject to payment limits or Adjusted Gross Income (AGI) provisions.

LOAN DEFICIENCY PAYMENT

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 4** 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.

Adjusted Gross Income Limitation

Beginning with the 2014 crop year, producers or legal entities whose average AGI exceeds $900,000 are not eligible for MLGs and LDP payments; but are eligible for MALs that must be repaid at principal plus interest, or with a commodity certificate exchange.

Payment Limitations

Beginning with the 2014 crop year, there are payment limitations on MLGs and LDPs associated with the MAL or LDP programs. The total amount of payments received, directly or indirectly, by a person or legal entity (except joint ventures or general partnerships) for Price Loss Coverage, Agricultural Risk Coverage, MLGs, and LDPs (for commodities other than for peanuts), is limited to no more than $125,000 annually. A person or legal entity that receives, directly or indirectly, payments for peanuts has a separate $125,000 payment limit for those payments. Producers exceeding this limit are still eligible for MALs but must repay at principal plus interest. The indirect benefit realized by producers who forfeit their loan quantity to CCC is not subject to the payment limit.

For additional information on payment limitations for marketing loan gains and LDPs, visit **www.fsa.usda.gov/limits**.

Payment limitation provisions do not apply to commodity certificate exchanges.

FOR MORE INFORMATION

This fact sheet is for informational purposes only; other restrictions or details may apply. To learn more about commodity certificates, visit **www.fsa.usda.gov/pricesupport** or contact your local FSA office. To find your local FSA office, visit **http://offices.usda.gov**.

Table 1. Final Loan/LDP Availability Dates by Commodity

Final Loan/LDP Availability Date	Commodity
Jan. 31	Peanuts, Wool, Mohair 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

Table 2. National Loan Rates, 2014-2018 Crops (per production unit)

Commodity	Production Unit	2014-2018
Wheat	bushel	$2.94
Corn	bushel	$1.95
Grain Sorghum	bushel	$1.95
Barley	bushel	$1.95
ELS Cotton	pound	$0.7977
Upland Cotton	pound	*
Oats	bushel	$1.39
Long Grain Rice	cwt	$6.50
Medium Grain Rice	cwt	$6.50
Soybeans	bushel	$5.00
Other Oilseeds	cwt	$10.09
Dry Peas	cwt	$5.40
Lentils	cwt	$11.28
Small Chickpeas	cwt	$7.43
Large Chickpeas	cwt	$11.28
Wool, graded	pound	$1.15
Wool, nongraded	pound	$0.40
Honey	pound	$0.69
Peanuts	ton	$355.00
Mohair	Pound	$4.20

* The upland cotton loan rate is the simple average of the adjusted prevailing world price for the 2 immediately preceding marketing years, but not more than 52 cents per pound nor less than 45 cents per pound. The loan rate for the 2015 crop year was announced April 15, 2015, at 52 cents per pound.

Table 3. Accrued Interest Calculation Examples

Facts	Accrued Interest for Loan A		
Applicable Interest	**2.250 %**		
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	$5.55	$7.40	$9.25

Table 4. 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 of $0.03.