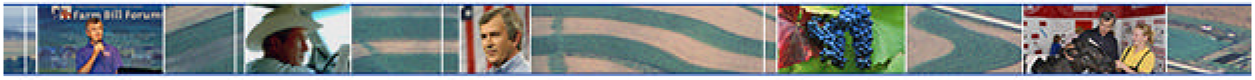

MARKETING ASSISTANCE LOANS & LOAN DEFICIENCY PAYMENTS

Background

Marketing assistance loans are made by the Commodity Credit Corporation (CCC), and provide interim financing to facilitate the orderly distribution of commodities throughout the year. Instead of selling immediately at harvest, a nonrecourse loan allows a producer who grows an eligible crop to store the production and pledge the crop itself as collateral. The loan proceeds help the producer pay bills when they come due without having to sell the harvested crop at the time of year when prices tend to be lowest. Later, when market conditions may be more favorable, a producer can sell the crop and repay the loan. Loan proceeds are based on loan rates set by statute and the quantity of eligible commodity pledged.

Marketing assistance loans for each eligible commodity (wheat, corn, grain sorghum, barley, oats, upland cotton, extra long staple cotton, rice soybeans, other oilseeds, dry peas, lentils, small chickpeas, honey, wool, mohair) are nonrecourse in nature. That is, a producer has the option of delivering to the CCC the quantity of a commodity pledged as collateral for a loan as full payment for that loan at loan maturity. In order to discourage forfeiture to the CCC, market loan repayment provisions specify that, under certain circumstances, a producer may repay less than the original loan principal and accrued interest and other charges, thus receiving a “marketing gain” equivalent to the waived portion of the debt. Alternatively, loan deficiency payment (LDP) provisions specify that, in lieu of securing a loan from CCC, a producer is eligible for an LDP that equals the marketing gain, if any.

Marketing loan and LDP provisions make forfeiture of loan collateral to CCC less appealing. Furthermore, CCC-owned surpluses may impose a significant taxpayer burden in the form of storage costs.

The 2002 farm bill provides that marketing assistance loans may be repaid at the lesser of the loan rate plus interest, or at a lesser rate as provided for in the 2002 farm bill. Generally, these lower rates: (1) minimize potential loan forfeitures and Government accumulation of stocks and storage costs; and (2) allow the commodity produced in the United States to be marketed freely and competitively, both domestically and internationally.

To receive LDPs, the producer must retain beneficial interest in the commodity from the time of harvest through the date the LDP is requested. For marketing assistance loans, the producer must retain beneficial interest in the commodity from the time of harvest through the date the loan is redeemed or CCC takes title to the commodity.

The chart below shows the quantity of corn, soybeans, wheat, and barley forfeited to CCC since crop year 2000 under several major commodity programs:

Crop Loan Forfeitures 2000—2004

Commodity	Crop Year	Estimated Production (NASS)	Quantity Forfeited to CCC	Percent of Production Forfeited
Corn (bu.)				
	2000	9,915,051,000	26,596,167	0.2682%
	2001	9,502,580,000	17,027	0.0002%
	2002	8,966,787,000	1,892,953	0.0211%
	2003	10,089,222,000	1,037,721	0.0103%
	2004	11,807,217,000	16,741,632	0.1418%
Soybeans (bu.)				
	2000	2,757,810,000	5,704,769	0.2069%
	2001	2,890,682,000	54,506	0.0019%
	2002	2,756,147,000	205,169	0.0074%
	2003	2,453,665,000	122,168	0.0050%
	2004	3,123,686,000	413,485	0.0132%
Wheat (bu.)				
	2000	2,228,160,000	12,749,123	0.5722%
	2001	1,947,453,000	442,849	0.0227%
	2002	1,605,878,000	1,507,263	0.0939%
	2003	2,344,760,000	2,480,904	0.1058%
	2004	2,158,245,000	7,007,622	0.3247%
Barley (bu.)				
	2000	317,804,000	670,937	0.2111%
	2001	248,329,000	0	0.0000%
	2002	226,906,000	0	0.0000%
	2003	278,283,000	239,748	0.0862%
	2004	279,743,000	198,713	0.0710%

General Opinions Expressed

- USDA was encouraged to continue the commodity certificate redemption program and provide a guaranteed market for farm products. Many felt that the marketing loan program is an important farm policy tool.
- Others thought USDA should figure LDPs on the basis of an average yield over several years, and factor in inflation of production and living costs when LDPs are calculated. Some said that LDPs are not localized enough.
- Many requested that the commodity loan rates be increased. Some stated that insufficient loan rates have caused producers to consider planting alternative crops rather than canola.
- A majority said posted county prices should be tied to only one market; farmers need higher prices and a fair price for their products. It was also suggested that USDA officials should “stand up” for present price supports.

- Some said FSA should retroactively increase the loan rate for white wheat and that the loan rates serve as an important safety net for minor-oilseed producers.
- Some felt that LDP benefits seem to help the producers who raise big crops; others said that LDPs should be tied to a limited amount of production, and others indicated that LDPs have an unintended consequence of providing payments to some producers who should not be eligible to receive them.
- It was recommended that USDA implement another Ewe/Lamb Retention program.
- A few commented that farm subsidies are not needed and that LDPs depress commodity prices and should be eliminated.
- Participants generally pointed out that when harvest begins in the South, LDPs are high, but as harvest moves north, the LDPs fall. LDPs are volatile due to futures markets and transportation.
- Some stated that the sheep industry needs help and that the wool LDP program should be continued.
- A few felt that a producer's LDP payments should not be larger than a full-time NRCS employee's compensation.
- Participants said that subsidy payments need to be reviewed and changed so taxpayers are not footing the bill for unintended costs. They indicated that USDA should consider lowering price supports, which artificially raise prices of commodities. Others indicated farming would be economically viable if prices were at least 50 percent to 60 percent of parity.
- Some producers said that the only profit from their corn crop is a LDP. They indicated it means a lot to them.
- It was widely suggested that farm legislation should move away from the traditionally supported crops, and toward more environmentally friendly commodities.
- Some producers objected to the current Direct and Counter-Cyclical Program (DCP) but wanted to continue with a crop loan structure with LDP on a limited-bushels-per-operator basis.
- It was recommended that livestock should be included in farm subsidy programs.
- Several commented that present commodity programs such as direct payments cause elevated farm land costs and rental rates.
- Many producers wanted equitable support for farm commodities across the Nation, with more emphasis on minimum supports for all producers.

Detailed Suggestions Expressed

- Reauthorize a limited Farmer Owned Reserve program.
- Lengthen time that commodities can be under loan.
- Include special farm programs for Guam because it has different crops and higher production costs.
- Farm legislation should expand the price support program to crops covered by the Noninsured Crop Disaster Assistance Program (NAP).
- USDA should give consideration to wheat counter-cyclical payments based on class.
- Include grass hay as an eligible commodity under the LDP program.
- Set the loan rates at or above the cost of production.

- When a farmer repays a commodity loan, the funds currently go back to a general fund. Instead, the funds used to repay a loan should go back into funding for Federal agriculture programs.
- Producers should be able to select a day when the LDP price is established, even if the crop was not harvested.
- USDA should include farm subsidies for nutritionally oriented crops.
- Farm legislation must switch to income support instead of commodity price supports.
- Farm legislation should give more emphasis on supports for grass-fed and grass-finished animal production systems.
- LDP rates should be less volatile during the year, so producers in the Northern part of the country can receive LDP rates similar to producers in the South.
- Expand agricultural legislation to include aquaculture support programs.
- The present wool and lamb program should be reauthorized with the wool base loan rate of $1.20 per pound.
- Strengthen wool producers' income by rewarding quality wool in the price support program.
- Develop a program to expand sheep numbers and reward producers for holding back ewe lambs.
- Expand the funding in support of the wool producer by continuing to provide funding for the sheep and wool industry through grants.
- Expand legislation to support a larger ethanol program to help cut the cost of the LDP program.
- Create legislation to tie LDP payments to yield history to enhance farm income and compensate for crop loss over extended years.
- Change the farm program to phase out current commodity loans and safety net programs, and replace them with more comprehensive crop insurance.
- Create a farm support program for pork producers to give more equitable support for all agricultural commodities and products.
- Authorize alfalfa as part of the farm LDP and loan programs.
- Authorize income supports for organic production that stabilizes soil and enhances the environment.
- The Government should repeal farm subsidies, especially corn, sugar, and rice.
- Farm legislation should take the cost of production into consideration by establishing farm supports with emphasis on providing a liveable return for effort.
- Fix farm price supports to the rate of inflation.
- A commenter expressed frustration in the Government setting of commodity differentials across State lines. These differentials should be limited to less than $.05 cents per bushel.
- Establish the corn loan rate at $2.60 per bushel and soybeans loan rate at $7.00 per bushel.
- Establish farm loan rates using a simple 5-year-average support price for corn and soybeans instead of the present use of an Olympic average (average production after omitting the high year and the low year).
- Lower the farm loan rates as an effort to cut Government cost.
- Create LDPs at a sufficient level so that the futures exchange has no effect.
- Authorize farm legislation to put more money into the pockets of all farmers.
- Return to the old parity support programs under permanent legislation.

- Change farm legislation to give higher supports to farmers through setting higher LDP and loan rates.