Additional Thoughts on Farm Program Payments:

The Marketing Loan Assistance Program

Food, Farming, & Sustainability
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The Marketing Loan Assistance Program is an example of a program that is coupled with production, i.e., not decoupled. It is linked to the crop that the farmer plants each year. Under this program, nonrecourse marketing assistance loans (MALs) and loan deficiency payments (LDPs) are authorized for the 2014 through 2018 crop years 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. Note that this is not a new program with the 2014 Farm Bill; it has been an established farm program for several farm bill cycles.

Under this program, the farmer can obtain a non-recourse loan from the CCC, using the crop as collateral. The amount of the loan will be based on a "loan rate" that is a set amount established for the term of the Farm Bill. This rate, in effect, guarantees the farmer's minimum price for the commodity. If the market price goes up, the farmer can sell the crop at the higher price, pay off the loan and keep the profit. If the market price goes down, the farmer can forfeit the crop to the government, keeping the loan funds.

Here's an example of how this works, excerpted from Professor Kelley's *Notes on the Major 1990-2002 Domestic Commodity Programs*, 12, USDA Administrative Processes and Practice (Fall 2004):

> To wit: Farmer harvests her corn. Checks market prices at harvest. Too low, but she needs $. Instead of selling her corn, she obtains a marketing assistance loan, pledging her crop as collateral. Assuming the current loan rate for her corn is $1.89 per bushel and that she has 10,000 bushels, my calculator tells me she will get a loan totaling $18,900.00. She uses these loan proceeds to pay bills. If, a few months later, the price of corn goes up, she redeems her collateral (i.e., the corn crop), sells it and uses the sale proceeds to repay the loan [keeping any profit.] If prices stay in the tank for the term of the loan, she forfeits her collateral (i.e., the crop) in lieu of repaying the loan. Since the loan is "nonrecourse," her obligation to the CCC is satisfied by the voluntary forfeiture.

Forfeiture presents some problems for the government, however. The USDA does not want the burden of the storage of significant amounts of commodities nor does it want world markets affected by the large scale forfeiture of commodities under the loan program. So two other programs have developed. MAL repayment provisions specify that under certain circumstances, producers may repay MALs at less than loan rate (principal) plus accrued interest and other charges, earning what is termed a "marketing loan gain." Using the example above, imagine a situation in which our farmers could replay her $1.89/bushel loan for $1.25/bushel plus costs, thus paying $12,500 plus costs to settle a debt of $18,900.

Alternatively, loan deficiency payment (LDP) provisions specify that, in lieu of securing a MAL, producers may elect to receive an LDP - this is essentially the financial benefit that the producer would have received through the loan transaction, but provided directly rather than going through the loan process. There is no actual loan made, just the financial benefit as if there was a loan and forfeiture.

In recent years, commodity prices have been high, so the Marketing Loan Assistance Program has not been as significant a financial benefit to farmers as it is in low price years. It may, however, be significant again now that prices are lower.

More detailed information about participating in the MAL and LDP programs will be covered next semester by Professor Allen Olson in the *Federal Farm Programs and Crop Insurance* class.