

Marketing Assistance Loans and Loan Deficiency Payments



Overview

Marketing assistance loans (MALs) and loan deficiency payments (LDPs) are marketing tools available during harvest or shearing.

Marketing assistance loans provide interim financing at harvest time to help agricultural producers meet cash flow needs without having to sell their commodities when market prices are typically at harvest-time lows. This enables producers to delay selling the commodity until more favorable market conditions emerge. Storing production at harvest (or at shearing for wool and mohair) allows more orderly commodity marketing throughout the year.

How it Works

A nonrecourse marketing assistance 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.



Recourse marketing assistance loans are also available for commodities that may be of lower quality due to an element such as high moisture, commodities harvested as other than grain, or for contaminated commodities that are still within merchantable levels of tolerance. Recourse MAL's can only be repaid at principal plus accrued interest.

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. An LDP is the difference the producer would have received if a loan was repaid at the lower market price, a direct benefit that does not need to be repaid.

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 states and counties and to allow U.S. produced commodities to be marketed freely and competitively.

Who is Eligible?

To be eligible for a MAL or LDP, a producer must:

- Comply with conservation and wetland protection requirements;
- Submit an acreage report for all cropland on all farms as applicable;
- 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).

Eligible Commodities

Eligible commodities include wheat, corn, grain sorghum, barley, oats, upland cotton, extra-long staple cotton (eligible for MAL only), 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 (eligible for LDP only), honey and peanuts.

Commodities harvested as other than grain may also be eligible for a 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 MALs.

Beneficial Interest

A producer retains beneficial interest in the commodity if the producer retains both:

- 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 delivered the commodity or warehouse receipt to the buyer. If delivered, the title may be considered as 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 stating 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 if the commodity is returned to the producer. The commodity is not considered rejected if the producer receives a reduced contract price.

Availability Dates

Producers may obtain MALs or receive LDPs on all or part of their eligible production anytime during the loan availability period which runs from when the commodity is normally harvested (or sheared) until dates specified in **Table 1**.

Marketing Assistance Loans

Loan Rates

The 2018 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:

- 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 the commodity pledged 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. This is 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 on Jan. 1.

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 Repayment

MALs mature on the last day of the ninth calendar month following the month in which the MAL is approved, except all seed cotton loans mature on May 31 the year following when the cotton was planted. A producer may repay an outstanding MAL:

- Before maturity period by repaying the MAL, or;
- Upon maturity by settling or forfeiting the commodity to CCC. The commodity is transferred to CCC to repay the loan.

For all loan-eligible commodities except extra-long staple (ELS) cotton or any recourse loan, 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 an NPP 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 AWP's for long grain, medium grain rice and upland cotton are announced weekly.

Commodity Certificate Exchange

Commodity certificates are available to producers 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 equal the amount by which the loan rate exceeds the repayment rate.

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 receives a marketing loan gain if the MAL is repaid at less than the loan principal. The marketing loan gain rate equals the amount by which the applicable loan rate exceeds the MAL repayment rate.

Commodity loan gains received from the commodity certificate exchange are not subject 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

Producers or legal entities whose average AGI exceeds \$900,000 are not eligible for marketing loan gains or LDP payments; but are eligible for MALs that must be repaid at principal plus interest to repay the loan or exchanged with a commodity certificate exchange if the lower alternative repayment rate is below the established loan rate.

Payment Limitations

LDPs and marketing loan gains available for crop years 2019 through 2023 are not subject to payment limitation, including actively engaged in farming.

More Information

To learn more about commodity certificates, visit fsa.usda.gov/pricesupport or contact your local FSA office. To find your local FSA office, visit farmers.gov/service-center-locator.

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, Seed Cotton, Sesame seed and Wheat
May 31	Corn, Cotton (bales), 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, 2019-2023 Crops (per production unit)

Commodity	Production Unit	2019 -2023
Wheat	bushel	\$3.38
Corn	bushel	\$2.20
Grain Sorghum	bushel	\$2.20
Barley	bushel	\$2.50
ELS Cotton	pound	\$0.9500
Upland Cotton	pound	*
Oats	bushel	\$2.00
Long Grain Rice	cwt	\$7.00
Medium Grain Rice	cwt	\$7.00
Soybeans	bushel	\$6.20
Other Oilseeds	cwt	\$10.09
Dry Peas	cwt	\$6.15
Lentils	cwt	\$13.00
Small Chickpeas	cwt	\$10.00
Large Chickpeas	cwt	\$14.00
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, and may not equal less than 98 percent of the loan rate for the base quality of upland cotton for the preceding year. The loan rate for the 2020 crop year was announced October 9, 2019, 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		
	<i>Scenario 1</i>	<i>Scenario 2</i>	<i>Scenario 3</i>
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		
	<i>Scenario 1</i>	<i>Scenario 2</i>	<i>Scenario 3</i>
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.