

# CROP MARKETING STRATEGIES

## New Commodity Loan Repayment Plan Begins

While the 2008 Farm Bill brought changes to commodity programs, the national loan rates for corn and soybean crops did not change for 2009 through 2012.

**2009 National Loan Rate**

<b>Corn</b>	<b>\$1.95/Bu</b>
<b>Soybeans</b>	<b>\$5.00/Bu</b>

Source: USDA Farm Service Agency

However, county loan rates can vary by county across the nation. These 2009 county loan rates have yet to be established, but are expected to be released sometime this spring.

There are major changes ahead for how loan repayment rates are determined. Beginning April 15<sup>th</sup>, 2009, the USDA Farm Service Agency (FSA) began using a different system for determining non-recourse marketing assistance loan repayment rates. These same rates are referred to as the Posted County Price (PCP). The PCP determines the loan deficiency payment (LDP) rate, derived by simply subtracted the county PCP from the county loan rate. LDPs are only paid when this PCP falls below the county loan rate.

As a result, a new Alternative PCP will be calculated daily and published to the FSA web site. The changes impact most crops grown in Iowa, including feed grains and oilseeds crops.

FSA's intent is to create an improved and more stable system for determining non-recourse marketing assistance loan repayment rates and PCPs that determine

the LDP. This new method will moderate fluctuations of the loan repayment rate decisions. In addition, it should reduce the effects daily market volatilities have on loan repayment rates. It should also provide more certainty of price for producers who have taken advantage of marketing assistance loans or LDPs.

In addition, the new loan repayment method should minimize potential forfeitures, accumulation of CCC stocks, CCC storage costs, market impediments and discrepancies in benefits across state and county boundaries.

### New 30-day and 5-day Averages

USDA's Commodity Credit Corporation (CCC) determined, and now publishes daily, loan repayment rates based on the average market prices during the preceding 30 days. At the same time, CCC began announcing each day a repayment rate based on the preceding five days. The new method will replace the old method, which is based on the previous day's market rates. The effective alternative repayment rate will be the lower of either the 30-day average or the 5-day average.

The 30-day method will reflect a 30-day moving average of all terminal market prices for the crop, adjusted by the difference between the applicable national loan rate and the county loan rate. The 5-day method will reflect a 5-day moving average of applicable terminal market prices adjusted by applicable county differential and terminal adjustments.

On the next page is an example of what the new daily summary will look like using actual prices for Story County, Iowa for April 23<sup>rd</sup>, 2009.

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## STORY COUNTY FSA OFFICE, IA Effective Date: 04/23/2009

Commodity	30-day PCP	Terminal Market	Terminal Market Price*	Adjustments **	Price After Adjustments	Alternative PCP
Corn \$/Bu.	3.99	GLF	4.15	-0.71	3.44	3.44
Corn \$/Bu.		KCM	3.66	-0.31	3.35	
Soybeans	10.07	GLF	10.84	-0.88	9.96	9.96
Soybeans		KCM	10.31	-0.38	9.93	

\* Reflects 5-day average applicable terminal market price for corn, soybeans

\*\* Includes county differential and applicable 5-day average terminal market adjustments

Source: USDA Farm Service Agency, [www.fsa.usda.gov](http://www.fsa.usda.gov)

### 2008 Crop Commodity Loan Program Information

Note the use of the 5-day average for GLF (Mississippi Gulf) compared to the KCM (Kansas City, Missouri) terminals. The higher of the 2 prices after the adjustment is posted as the Alternative PCP.

Changes in this PCP and thus the loan repayment rate do not appear major. However, should the level of this Alternative PCP move below the county loan rate, the impact would be noted.

#### Marketing Loan and LDP Strategies Minimized

Prior to mid-April 2009, the loan repayment rate for all counties was based on the daily posted county price for that commodity. This rate was adjusted by any premiums and discounts made to a non-recourse marketing assistance loan at the time the loan were made. This same rate became the daily PCP for that commodity crop in a particular county.

Should a futures market move higher during the day, a producer that already had grain under CCC loan could respond by "locking-in" this repayment rate for up to 60 days. In effect, this created a lower loan repayment rate and the opportunity for that producer to create a small market loan gain.

Many producers became adept at "take the LDP" on the day the futures market moved significantly higher. This strategy tended to create a much larger LDP, as the higher futures price usually meant a decline in the LDP the following day.

Changes in the use of the Alternative PCP which began in mid-April 2009 seem minor. However, the advantage producers had to "lock-in" the loan repayment rate or "take the PCP" on a specific day will be minimized. This will not likely be of significance unless crop cash price levels reflecting the Alternative PCP fall below the county loan rate.

**Steven D. Johnson, Ph.D.**  
Farm & Ag Business Management  
Field Specialist  
Iowa State University Extension  
(515) 957-5790  
[sdjohns@iastate.edu](mailto:sdjohns@iastate.edu)