



\$1.80 Loan rate (borrowed)  
-1.82 PCP (repaid)  
 \$-.02 Deficit

\$1.82 Sale price  
-.02 Deficit  
 \$1.80 Net price

The cash deficit incurred from repaying more than was originally borrowed (above) is less than the amount of interest paid if the loan is repaid in the traditional manner (below).

\$1.80 Loan rate (borrowed)  
 -1.80 Loan rate (repaid)  
-.05 Accrued interest  
 \$ -.05 Cost

\$1.82 Sale price  
-.05 Cost  
 \$1.77 Net price

**Option 3**--Loan repayment at PCP and sale  
*Example 3*--PCP and sale price are different

If the sale price is higher than the PCP, the producer will receive a net price higher than the loan rate. For example, assume the sale price is \$1.70 and PCP is \$1.60.

\$1.80 Loan rate (borrowed)  
-1.60 PCP (repaid)  
 \$ .20 Benefit

\$1.70 Sale price  
+ .20 Benefit  
 \$1.90 Net price

The market price may be higher than the PCP in two situations:

1. If the PCP does not accurately reflect the market price on a specific day.
2. If the grain is not sold on the day it is redeemed but held for later sale.

Likewise, if the sale price is below the PCP, a net price below the loan rate results.

The table below shows the net price received under various sale prices and PCPs. The loan rate is assumed to be \$1.80. Current USDA loan rates can be found in *Information File A1-34 Corn and Soybean Loan Rates*.

**Table 1. Net price under sale prices and PCPs.**

PCP	Benefit*	Sale price				
		\$1.40	\$1.50	\$1.60	\$1.70	\$1.80
\$1.80	0	1.40	1.50	1.60	1.70	1.80
1.70	\$.10	1.50	1.60	1.70	1.80	1.90
1.60	.20	1.60	1.70	1.80	1.90	2.00
1.50	.30	1.70	1.80	1.90	2.00	2.10
1.40	.40	1.80	1.90	2.00	2.10	2.20

\*Benefit = loan rate less PCP

If the expected sale price is below the PCP, a producer would consider forfeiting on the loan rather than repaying the loan at the PCP. For example, assume the PCP is \$1.70 and the market price is \$1.60. Repaying the loan and selling the grain results in a net price of \$1.70.

\$1.80 Loan rate (borrowed)  
1.70 PCP(repaid)  
 \$ .10 Benefit

\$1.60 Sale price  
+ .10 Benefit  
 \$1.70 Net price

If the grain is held until the end of the 9-month period and forfeited, the price received is \$1.80. However, additional storage costs, quality deterioration and availability of storage are considerations that also should be taken into account when deciding how long to store grain.

**Option 3** --Loan repayment at PCP  
*Example 4* --Grain is fed

Livestock producers should follow the same rules as described above. Even though the grain is fed, livestock producers will benefit by choosing the repayment method that results in the smaller cash outlay. Repaying at the PCP rather than the loan rate results in a smaller cash outlay if the PCP is less than the loan rate plus accrued interest. If the PCP is above the loan rate plus interest, the traditional method of repayment should be followed.

**Eligible commodities**--Contact your local Farm Service Agency (FSA) Office for information on eligible commodities.

**Interest rate**--The interest rate on marketing loans is set at 1 percentage point above the CCC's cost of borrowing. This is usually below short-term commercial borrowing rates.

**Loan maturity dates**--Corn and soybean loans mature on demand, but no later than the last day of the ninth month after the month in which the loan was approved and disbursed.

**Payment limitation**--There is no longer any limit on the total of marketing gains and loan deficiency payments that can be received each year. Marketing gains are gains from cash loan repayments at a rate less than the original loan rate.

### Loan Deficiency Payments (LDPs)

Loan Deficiency Payments (LDPs) are payments to producers who, although eligible to obtain a CCC non-recourse price support loan, agree to forgo the loan in return for LDPs.

The LDP is the LDP rate times the quantity that is eligible for loan. The LDP rate is the amount by which the county loan rate exceeds the PCP. For example, if the PCP is less than the loan rate, the difference would be the LDP rate on that day. If the PCP is equal to or greater than the loan rate, LDP's do not apply. LDP's are paid in cash.

#### Assume

1000 Bushels eligible for loan  
 \$1.80 Loan rate  
 1.70 PCP  
 1.70 Market price

#### Example

\$1.80 Loan rate  
-1.70 PCP  
 \$ .10 LDP rate  
 \$ .10 x 1,000 bu. = \$100 Total LDP  
  
 \$1.70 Sale price  
+ .10 LDP rate  
 \$1.80 Net price

If the grain is sold at the time the LDP rate is established, the producer will receive a total price equal to the loan rate (assuming market price and PCP are equal). If the market price is above (below) the PCP the producer will receive a net price higher (lower) than the loan rate. Also, if the producer does not sell the grain at the time of application but holds for later sale, he/she will receive a higher net price if the market price increases, or a lower price if the market price decreases.

**Eligibility requirements**--Producers must report (certify) crop acreages and be in compliance with Sodbuster/Swampbuster provisions in order to be eligible for LDPs.

The crop must *not* have been previously pledged as collateral for a price support loan and repaid at less than principal and interest. Once LDPs have been received on a quantity of grain, it is no longer eligible for a marketing loan.

LDPs can be issued on 100 percent of the farm-stored quantity certified by the producer or 100 percent of the quantity measured by FSA on the farm. LDPs can be issued on 100 percent of the net quantity of grain shown on a warehouse receipt.

LDPs for corn and soybeans must be requested by May 31, of the year following harvest.

### Types of LDPs

LDPs can be used in the situations described below. For more information on these situations contact your local Farm Service Agency office.

**Certified LDP with later sale**--The producer certifies the harvested production in farm storage.

**Measured LDP**-- Application is completed on production in farm storage.

**Warehouse stored LDP**--The producer deposits its grain in a warehouse and obtains a warehouse receipt.

**Field direct LDP**--This procedure can be used by a producer planning to sell grain directly from the field to a warehouse, processor, or buyer. This can be a cash or contract sale.

Prior to harvest a producer *must* properly apply for the LDP. The application is based on the estimated amount of grain that will be sold directly from the field. The LDP rate is based on the date(s) of delivery. Upon completion of the sale, load summary sheets are presented to FSA and used as production evidence.

### **Beneficial interest**

For a commodity to be eligible for a loan or a loan deficiency payment (LDP), the producer must have beneficial interest in the commodity in addition to other eligibility requirements. A producer retains beneficial interest in the commodity if *all* of the following remain with the producer:

**Control of the commodity**--A producer has control of the commodity if he/she retains the ability to make all decisions affecting the commodity.

**Risk of loss**--A producer has risk of loss if he/she is responsible for any loss or damage to the commodity and will receive any indemnity payments.

**Title to the commodity**--A producer has title if he/she has not sold or delivered the commodity.

Producers who sell grain under a contract may be asked to provide the contract for review to FSA to determine beneficial interest.

For LDPs, the producer must retain beneficial interest in the commodity from the time of harvest

through the date the LDP is requested. For CCC marketing 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. Once beneficial interest in the commodity is lost, the commodity remains ineligible for a CCC loan or an LDP even if the producer regains control, risk of loss, and title.

### **Marketing implications**

**When to use**--Marketing loans (repayment at PCP) only have value if the market price is below the loan rate plus accrued interest. LDPs only have value if the market price (PCP) is below the loan rate.

**Floor price**--Traditionally, producers forfeited grain under loan to CCC when market prices were below the loan rate. The forfeited grain was held off the market by CCC causing market prices to be maintained at or near the loan rate. However, marketing loans and LDPs allow producers to profitably redeem loans at prices below the loan rate and sell the grain on the open market. So, the loan rate no longer acts as a floor under market prices.

**Market highs & lows**--In addition to attempting to anticipate market highs for selling grain, producers may attempt to anticipate market lows for redeeming marketing loans or initiating LDPs. However, storing unpriced grain after LDPs have been applied for risks a lower net price should markets decline.

More information about how grain producers can use loan deficiency payments and marketing loans to manage price risk can be found in *Information File A1-32 Commodity Programs for Crops*.

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