Developing a Corn LDP Strategy

The existence of a corn LDP might have surprised many producers, developing a strategy for collecting a corn LDP is critical. The latest LDP for corn can be found at: http://www.fsa.usda.gov/dafp/psd/ldp/pstatecldp.htm and click on your state and county.

This LDP may be only a few cents during the 2003 harvest, depending on the futures price level and regional basis used by USDA to calculate the Posted County Price (PCP). Only when the PCP falls below the county loan rate is there an LDP. The LDP must be claimed by the producer for designated bushels already harvested, by completing FSA forms CCC-709 or CCC-633.

Two factors that added to the harvest LDP this fall include:
1) USDA increased the national loan rate by 9 cents per bushel, to $1.98 each of the past 2 years. Since 1998, when U.S. corn production in the October USDA Crop Report was at least 2% larger than the September report, the low for December corn occurred in November two-thirds of the time.

2) Basis appears to be returning to normal with harvest pressure. Recent basis had been abnormally narrow until the past few weeks, which had been based on expectations of a smaller U.S. corn crop. The size of the crop has grown nearly 300 million bushels since the September crop report. Now room must be made at commercial elevators and on-farm for these additional bushels, likely causing the wider basis.

A large number of producers may not take the LDP at harvest. The strategy will likely pertain to those who have already delivered the corn and have those bushels on open storage. In addition, sold bushels that are delivered at harvest, as well as bushels that will be fed, will likely be LDPed. For bushels still on open storage, the LDP needs to be claimed before settlement is made. Thus assurance of beneficial interest in the crop is required on all LDPed bushels.

For any bushels you plan to store beyond harvest speculating on higher prices and/or narrower basis, consider using the marketing loan, not the LDP. That’s because if you LDP at harvest and then choose to hold those bushels either commercially or on-farm this winter or into spring or summer, you have no protection should lower prices occur.
One of several advantages of using the marketing loan vs. taking the LDP is that if the PCP falls below the county loan rate, you can pay off that loan at the lower PCP and waive any interest accrued on the loan to date.

**Using both LDP and the Marketing Loan**

Producers might consider taking the LDP on harvested bushels that they have on open storage, are selling at harvest or those bushels that will be fed. The balance of bushels they plan to store could then be used for the marketing loan. This strategy will serve as a much better tool for managing price risk for a period of up to 9 months. Loans taken out in October will expire at the end of July, 2004.

Another advantage of the marketing loan is that, for any day when the PCP falls below the county loan rate, the producer can elect to use the "60-day lock" of that PCP. This could coincide with harvest pressure and bushels sold for early winter delivery. Another strategy might be to capture the nearly 20 cents per bushel carry in the futures market offered again this marketing year, and forward price bushels for summer delivery. Should prices decline before delivery, perhaps based on large 2004 crop prospects, the use of the “60 day lock” could be used for bushels still under loan. In addition to the marketing loan gain (similar to the LDP), the interest that had accrued on the loan could also be waived.

Remember, you can only use the 60-day lock once on the same bushels. Visit your local Farm Service Agency office for answers to any questions regarding LDPs, the marketing loan and use of the 60-day lock and related FSA forms. You can also access these forms electronically, but must register for a user name and password at your local FSA office.

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