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**LDP and Marketing Loan Strategies**

Just when you think you have LDPs and Farm Service Agency (FSA) forms figured out, they change. This fall FSA Form 666 has been replaced by Form 633. Seven responses to yes or no questions and your initials are required on each form. In addition, the Field Direct LDP Form-709 was updated to include 5 questions. Visit your county FSA office before harvest to review these forms and create an example of each form with the correct responses in order that you can claim an LDP.

Will there be an LDP this fall? LDPs only occur when cash prices, reflected by the Posted County Price (PCP), fall below the County Loan Rate. Hence the name, Loan Deficiency Payment. If cash prices reflected in the Posted County Price increase during harvest, then the LDP declines. When the Posted County Price equals the County Loan Rate, there is no LDP available.

The likelihood of getting an LDP on corn this fall will decrease at harvest if lower yields give way to higher prices. If there are LDPs on corn, they will likely be nickels and dimes rather than the 40 cents plus realized during the past 2 harvests. The USDA now estimates the average U.S. corn yield at 133.5 bushels per acre.

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The Posted County Price for each county can be found on the Internet after 7:30 am each weekday morning at:

Source:  [www.card.iastate.edu](http://www.card.iastate.edu)

After you are on the site, click on LDP Information, then Statewide LDP and select either corn or soybeans. This information will be listed by county and include the County Loan Rate, Posted County Price and the LDP Rate.

Remember, LDP is calculated by subtracting the Posted County Price from the established County Loan Rate. When prices go up, LDPs go down, and conversely, when prices go down, LDPs go up.

**Using the Marketing Loan**

With a small or perhaps no LDP on corn this fall, producers might consider using the Marketing Loan, especially for bushels that you plan to store. The Marketing Loan provides downward price protection. As long as you maintain beneficial interest in your bushels upon harvest, each bushel can be taken under loan at the County Loan Rate. Interest would accrue on these bushels for up to 9 months below 5% Annual Percentage Rate. A producer would have access to these loan proceeds, but have some decisions about selling the corn and paying off the loan. Just because the length of the loan is 9
months does not mean you should store the crop for 9 months.

Using the PCP Lock-In

If the Posted County Price stays above the County Loan Rate, the loan can be paid off plus interest when the corn is sold. If the Posted County Price falls below the County Loan Rate, a producer can use FSA Form-697 to “lock-in” the Posted County Price for up to 60 days any day before 14 days before the expiration of the 9-month loan. If prices go higher during this period, the bushels can simply be sold and the loan paid off at the lower Posted County Price. No interest would be paid using this strategy.

Before sold bushels are moved, a Marketing Authorization must be obtained from your local FSA office. Thee bushels serve as collateral for a loan you received from USDA.

“call the FSA Office before you haul”

The advantage of using the “loan and lock” strategy is that if corn prices did not increase during this 60-day period, but actually decreased, the producer has another option. Simply let the “lock-in” expire, understanding that the Posted County Price “lock-in” cannot be used again on these bushels. The corn could be sold at a later time and paid off at the lower Posted County Price. This strategy could work well for corn that has carry in the futures markets and is often stored longer than soybeans. You could forward price your corn that was taken under loan for say March delivery and “capture the carry” in the market.

If the corn market comes under pressure and Posted County Price falls below your County Loan Rate, say in February, you can “lock-in” the Posted County Price for up to 60 days. You will need to get a Marketing Authorization from your FSA office before moving the grain, then deliver the corn, use the sale proceeds to pay off the loan at the lower Posted County Price and avoid interest charges on the loan. This “marketing gain” is similar to an LDP, without the risk of prices going lower.

Soybeans and the Marketing Loan

The potential for an LDP on soybeans is greater than for corn, because the Posted County Price is much lower than the County Loan Rate. However, the likelihood of an LDP of a $1 per bushel or more seen the last 2 harvests is unlikely. Most producers know the risk of taking the LDP and storing the soybeans for a long time. The seasonal price trend for soybeans is for prices to rally during the last half of harvest though mid-November. The “loan and lock” strategy could allow producers to capture a Marketing Loan Gain late this fall and early winter and provide a chance to sell soybeans above the County Loan Rate.

Summary

Producers and landowners need to know how to use the marketing loan program. The LDP strategy is easy, but does not provide downward price risk. Please contact your FSA office if you have any questions or view this information online at:
The function of the futures markets is to determine price for the next 15 to 18 months using supply/demand considerations. On Friday, October 12 USDA will release its next Crop Production Report estimating crop size. Watch during the next few weeks for early harvest results. Both private and public forecasters will attempt to predict the potential crop size and the resulting prices that might occur. If a large price swing happens during the day, a producer has until 4:30 p.m. that afternoon to stop by the FSA office to claim an LDP or to “lock in” the Posted County Price on bushels that are already under loan.

Using Information Technology

If you have access to a fax machine, most FSA offices allow an LDP claim or a Posted County Price “lock in” to be requested before 6 a.m. the following morning. The advantage in using a fax request is additional time and convenience.

If the Board of Trade closes higher, then the likelihood is that the Posted County Price will be higher the next morning and the LDP will be lower. View the Overnight Trade to confirm this trend, then fax your request before the 6 a.m. deadline.

If you do plan to fax in an LDP and/or Posted County Price “lock in” requests, make sure you stop by the FSA office and complete FSA Form 237 that allows the acceptance of the forms and signatures by fax. The forms must be completed correctly in order to receive the LDP or Posted County Price “lock

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