Ag Policy: Marketing Loan Benefits Supplement Market Revenues for Farmers

Low levels of market prices for many field crops have triggered the availability of marketing loan benefits to farmers. Total government marketing loan benefits for 1998 crops have reached $3.8 billion and could exceed $5 billion for 1999 crops.

Farmers can receive marketing loan benefits in two ways: through loan deficiency payments and marketing loan gains. Generally, whenever the market price for an eligible field crop drops below its applicable commodity loan rate, a farmer may opt for a revenue-boosting loan deficiency payment (LDP) in lieu of securing a commodity loan. (Commodity loans provide interim financing to producers of eligible commodities, regardless of market prices; farmers pledge crops as collateral and receive loans at a specified rate—the loan rate—per unit of the commodity.) The loan deficiency payment rate equals the difference between the applicable commodity loan rate and the posted county price for wheat, feed grains, and oilseeds and the adjusted world price for upland cotton and rice (AO October 1998). Alternatively, eligible farmers realize a marketing loan gain by repaying outstanding commodity loans at a per-unit rate—posted county price or adjusted world price—that is below the loan rate.

LDP’s and marketing loan gains augment market receipts for eligible field crops and result in national average per-unit revenues that exceed season-average prices and commodity loan rates. Marketing loan benefits for the 1998 soybean crop illustrate how this works. Through mid-November 1999, about 89 percent of the 1998 soybean crop had received a marketing loan benefit—nearly 78 percent had received an LDP, with an average payment rate of $0.41 a bushel; and more than 11 percent had received a marketing loan gain averaging $1.06 a bushel. The rest of the 1998 soybean crop did not receive a marketing loan benefit, although some 1998 soybean commodity loans were still outstanding. Average benefit rates differ for the two options because a large portion of 1998-crop soybean marketing loan gains was taken in the spring and summer of 1999 when soybean prices were lower than in the fall of 1998, when most LDP’s were received.

Accounting for LDP’s, marketing loan gains, and the portion of the crop with no marketing loan benefit, the weighted-average marketing loan benefit for the 1998 soybean crop was about $0.44 a bushel. This benefit augmented the season-average price of $5 per bushel, raising the average per-unit revenue for soybeans to $5.44 a bushel, $0.18 above the 1998 national soybean loan rate of $5.26 per bushel.

Similar benefits went to other field crops with marketing loan provisions—wheat, corn, grain sorghum, barley, oats, rice, upland cotton, and several minor oilseeds. For all of these crops, marketing loan benefits supplemented market receipts, resulting in average per-unit total revenues exceeding the respective national loan rates. As with soybeans, marketing loan benefits for grain sorghum and oats raised the average per-unit revenue above the loan rate from a season-average price that was below the loan rate.

Paul Westcott (202) 694-5335 westcott@ers.usda.gov
For more information about marketing loan benefits, see Online Reports, Price Support Division, Farm Service Agency/USDA at http://www.fsa.usda.gov/dafp/psd.