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HIGHER GRAIN PRICES RESULT IN LESS LOAN DEFICIENCY PAYMENT ACTIVITY**PROGRAM PROVISIONS**

The last two farm bills implemented in 1996 and 2002 contained provisions for nonrecourse marketing assistance loans and loan deficiency payments (LDP's). In essence, these programs place floors under prices that farmers could receive at loan rates. When cash prices are below loan rates, farmers can receive LDPs. Another alternative is to use marketing loan provisions that allow producers (under certain conditions) to take out marketing loans on grain at loan rates. When cash prices are below loan rates, farmers can repay a 9-month nonrecourse commodity loan at less than the loan rate, plus accrued interest and other charges or receive an LDP in lieu of obtaining a loan. In other words, generally speaking, if local cash prices were below the commodity loan rate, producers could receive the difference through either a market loan gain or an LDP. If this was the case, most producers took advantage of the program by taking an LDP. Current loan rates in Illinois for corn, soybeans and wheat average about \$2.06, \$5.16 and \$2.59 respectively. These rates vary by county.

Corn, soybean and wheat prices for the 1998 through 2001 crop years were below the loan rates much of the time resulting in a large portion of the crop receiving an LDP or marketing gain. For the 2002 and 2003 crop years, prices have been above the loan rates most of time resulting in limited use of this farm program provision.

DEFINITIONS

The USDA Farm Service Agency (FSA) website (<http://www.fsa.usda.gov/dafp/psd/reports.htm>) provides data on the number of bushels and dollars of LDP's and market gains by commodity at the state and county level. Table 1 provides a summary of some this data for corn, soybeans and wheat in Illinois for the 1998 through 2003 crop years. The percent of bushels receiving an LDP or market gain was calculated by taking the bushels from the FSA website and dividing into the estimated production for the state. The average LDP and market gain amount is listed on the FSA website. The effective bushel rate is calculated by taking the total dollars of LDP's and market gains received divided by the total production. The effective rate will be below the average LDP rate since 100 percent of the bushels never receive an LDP or market gain.

RESULTS

As indicated in table 1, the 2000 crop year resulted in the highest LDP percentage for corn at 93.3 percent. A high percentage of the corn crop in 1999 and 2001 also received an LDP. The highest average LDP was in 2000 at 29 cents per bushel. The effective rate that year was 26 cents per bushel. Very little of the corn crop received an LDP in 2002 and so far in 2003 8.2 percent of the corn crop received an LDP. As of the writing of this newsletter, cash prices are above the loan rate for corn resulting in no LDP's available at this time.

For soybeans, crop years 1998 through 2001 all resulted in over 90 percent of the crop receiving an LDP or market gain. For the 2000 crop year, almost 100 percent of the crop received an LDP. The highest average LDP rate was in 2001 at \$1.25 per bushel. The highest effective rate was the same year at \$1.21 per bushel. Only 9.1 percent of the 2002 crop received an LDP and none of the 2003 crop.

The 2000 crop year resulted in 81.4 percent of the wheat crop receiving an LDP or market gain. The highest average LDP payment was 52 cents in 1999. Less than 1 percent of the wheat crop received a payment in 2002 and none of the 2003 crop received a payment.

SUMMARY

Provisions of the government farm program allowing LDP's and market gains have been used extensively by producers in Illinois during times of low commodity prices, as they should. During the last two crop years, commodity prices have been above loan rates most of the time resulting in limited use of the LDP and market gain program. This has brought us back to the market providing more of the return to the producer and less coming in the form of government farm program payments.

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Table 1. Percent, Average LDP and Marketing Loan Gain, and Effective Rate for Corn, Soybeans and Wheat for 1998 through 2003 for Illinois.

Corn				
Crop Year	Percent bu. Received LDP or Gain	Average LDP Payment	Average Market Gain	Effective bu. Rate
-----(\$ per bu.)-----				
1998	56.7%	\$0.18	\$0.28	\$0.11
1999	88.6%	\$0.26	\$0.32	\$0.23
2000	93.3%	\$0.29	\$0.17	\$0.26
2001	90.2%	\$0.16	\$0.10	\$0.14
2002	2.0%	\$0.18	\$0.05	\$0.00
2003	8.2%	\$0.06	\$0.07	\$0.00

Soybeans				
Crop Year	Percent bu. Received LDP or Gain	Average LDP Payment	Average Market Gain	Effective bu. Rate
-----(\$ per bu.)-----				
1998	90.9%	\$0.44	\$1.09	\$0.46
1999	98.4%	\$0.90	\$0.83	\$0.88
2000	99.5%	\$0.94	\$0.97	\$0.94
2001	98.2%	\$1.25	\$1.05	\$1.21
2002	9.1%	\$0.08	\$0.07	\$0.01
2003	0.0%	\$0.00	\$0.00	\$0.00

Wheat				
Crop Year	Percent bu. Received LDP or Gain	Average LDP Payment	Average Market Gain	Effective bu. Rate
-----(\$ per bu.)-----				
1998	59.1%	\$0.27	\$0.48	\$0.17
1999	73.3%	\$0.52	\$0.46	\$0.38
2000	81.4%	\$0.39	\$0.43	\$0.32
2001	72.9%	\$0.33	\$0.23	\$0.24
2002	0.6%	\$0.12	\$0.00	\$0.00
2003	0.0%	\$0.00	\$0.00	\$0.00

Source: USDA Farm Service Agency website.

