

January 27, 2005**FEFO 05-02****Lower Grain Prices Result in Increased Loan Deficiency Payment Activity for the 2004 Corn and Soybean Crop**

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 are below the commodity loan rate, producers can receive the difference through either a market loan gain or an LDP. Current loan rates in Illinois for corn, soybeans and wheat average about \$2.02, \$5.14 and \$2.54 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 were above the loan rates most of time resulting in limited use of this farm program provision. For the 2004 crops, wheat prices have been above the loan rate, corn prices have been below the loan rate and soybean prices were below the loan rate at harvest but have been above the loan rate since the middle of November.

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 2004 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 1000 percent of the bushels do not receive an LDP or marketing 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. As of the end of January, 2005, 76.1 percent of the 2004 corn crop received an LDP or marketing loan gain. The highest average LDP has been for the 2004 corn crop at 32 cents per bushel. The effective rate for 2004 is 24

Table 1. Percent, Average LDP and Marketing Loan Gain, and Effective Rate for Corn, Soybeans and Wheat for 1998 through 2004 for Illinois.

Corn				
Crop Year	Percent 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	2.1%	\$0.00	\$0.05	\$0.00
2003	17.6%	\$0.05	\$0.14	\$0.01
2004	76.1%	\$0.32	\$0.31	\$0.24

Soybeans				
Crop Year	Percent 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	0.1%	\$0.00	\$0.17	\$0.00
2004	44.1%	\$0.23	\$0.24	\$0.10

Wheat				
Crop Year	Percent Received LDP or Gain	Average LDP Payment	Average Market Gain	Effective bu. Rate
-----(\$ per bu.)-----				
1998	56.0%	\$0.27	\$0.48	\$0.16
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
2004	0.0%	\$0.00	\$0.00	\$0.00

Source: USDA Farm Service Agency website.

cents per bushel. Very little of the corn crop received an LDP in 2002 while 17.6 percent of the 2003 crop received an LDP. As of the writing of this newsletter, cash prices continue to be below the loan rate for corn so one can expect that more of the 2004 corn crop will receive an LDP.

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. For 2004, 44.1 percent of soybean crop has received an LDP. Except for a couple of days, there hasn't been an LDP available for soybeans since the middle of November.

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 and 2004 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 2002 and 2003 crop years, commodity prices were above loan rates most of the time resulting in limited use of the LDP and market gain program. However, lower corn and soybean prices for the 2004 crop year has resulted in increased use of the loan deficiency payment program, especially for the corn.

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