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CHANGE IN MARKETING LOAN REPAYMENT ALTERNATIVES

The USDA announced a significant change in the marketing loan program effective October 21, 1999. The change modifies the rules establishing the repayment rate for marketing loans. Producers should contact their county Farm Service Agency for the details of the new program. For crops under loan and for which the proceeds have been paid to the producer, a repayment rate can be established and locked in for a 60 day period, or 14 days prior to loan expiration, whichever occurs first. The request for the repayment rate reportedly must be made in person using form CCC-697, and can be made for any or all of the crop under loan. The repayment rate on those bushels is the repayment rate in effect on the date that the request is approved. The rate cannot be cancelled, terminated, or changed within the agreement period.

Once the request is approved, the producer can repay the loan at any time during the agreement period at the approved rate. If the agreement period expires, the repayment rate is then established in a normal fashion, that being the smaller of principal plus interest or the county repayment rate on the day the producer chooses to repay. Forfeiture of the loan is still an alternative at the end of the loan period, (after repayment period has expired) but is not expected to be an attractive alternative.

Producers can file multiple requests for this new repayment option, but not on the same bushels. It is a one-time option for each bushel. Within the repayment period, a rule of first in, first out will apply in the cases where multiple requests are made and still outstanding. For farm stored commodities under loan, producers will continue to use form CCC-681-1 to request release before repayment of the loan, with a delivery period of 15 or 30 calendar days.

The change in the marketing loan program offers a new speculative alternative for producers. Under the original rules, a producer could establish the loan deficiency payment (LDP) and retain ownership of the crop in hopes of higher cash prices. That procedure, however, offered no downside price protection to the producer. The new loan repayment option gives the producer a 60-day window in which to establish a repayment rate and speculate on higher price, but with the protection of the loan still in place at the end of the 60 day period. The limitation, however, is that the repayment rate cannot be altered during the 60 day window to take advantage of a lower rate than agreed upon.

Producers will likely submit multiple requests to spread the chance for higher prices on a portion of the crop under loan over a longer time period. In addition, requests will likely be submitted at times when producers believe there are high probabilities of price increases. For corn and soybeans, that could be now, in anticipation of a post-harvest price recovery, or that could be in the late winter or early spring (assuming prices are still below the loan rate) in anticipation of weather related rallies.

It is generally believed that producers will make significant use of the new loan repayment alternative and that the alternative will encourage more use of the loan program than would otherwise have occurred. It appears, however, that producers were already planning to store as much of the corn and soybean crops as possible so that the change should have little impact on prices or price structure. Producers still appear to be more interested in establishing loan deficiency payments at harvest and holding grain for higher prices. While this strategy is more risky, it is much more flexible. Producers appear to believe that price lows are in and anticipate at least a modest post harvest price recovery.

Producers may not have to put as much of the crop under loan for cash flow purposes now that the President has signed the bill to increase farm payments by $8.7 billion. This bill includes $5.54 billion in market loss payment that will be allocated as a doubling of each producer's production contract payment. Those payments are expected to be distributed very quickly. In addition, the payment limitation for loan deficiency payments and marketing loan grains has been doubled to a total of $150,000.

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