Farm Security and Rural Investment Act of 2002

Commodity Programs for Crops

The 2002 Farm Security and Rural Investment Act (FSRIA) provides for three different types of payments for an expanded list of farm commodities:

- **Loan Deficiency Payment** (LDP) or Marketing Assistance Loan: similar to previous bill
- **Direct Payment**: replaces AMTA, PFC, Market Loss Assistance, and Oilseed Payments
- **Counter Cyclical Payment** (CCP): new

The crops that are covered by the bill include corn, soybeans, oats, wheat, grain sorghum, barley, upland cotton, rice, sunflowers, rapeseed, canola, safflower, flax, and mustard seed. In addition, loan deficiency payments are extended to long staple cotton, dry peas, lentils, small chickpeas, wool, mohair, and honey.

Hay and forages are not covered crops.

Decisions to Make

There are three basic decisions to make regarding the new commodity programs:

1. You can keep your current program base acres, or update your base acres to reflect 1998-2001 cropping patterns.
2. If you do not update base acres, a soybean base will be created. You can then shift some base acres from other program crops into your soybean base.
3. If you do update base acres, you can keep your old program yields based on 1981-1985 levels, or you can update yields based on 1998-2001 levels.

Base Acres for Program Crops

You can choose to keep your current corn base (PFC acres), as well as any bases you have for oats, wheat, or other program crops. If you choose this option, you can also establish a base for oilseeds, such as soybeans. Your soybean base acres will be equal to your total acres planted to the program crops listed above minus your total acres in PFC corn base and other crop bases for each year 1998 to 2001. However, your soybean base acres for each year cannot be larger than your actual soybean acres in each year. Then average the soybean base acres over four years. Include prevented planting acres as well as planted acres in your calculations. If you wish, you can shift acres from other bases such as oats to your soybean base.

Example: Keep old program bases

Assume your current PFC corn base is 400 acres. During 1998-2001, your crop acres have consisted of 300 acres each of corn and soybeans, or 600 total acres of program crops. You can establish a soybean base equal to the average of your total program crop acres each year, 600 acres, minus your existing corn base of 400 acres. So, your soybean base is 200 acres.

Now suppose instead that you had a corn base of 350 acres and an oats base of 50 acres. Your soybean base would still be 600 acres minus 350 corn acres minus 50 oats acres, or 200 acres. However, you could add the 50-acre oats base to your soybean base to raise the soybean base to 250 acres. You cannot make your soybean base any larger than your actual planted acres of soybeans in each year, though. In this case, 300 acres would be your upper limit. You could also shift corn base acres to soybeans, but this would probably result in smaller total payments. You cannot shift acres from other bases into any crop base except an oilseed crop.

In general, it will pay to shift oat base acres to soybeans, but not to shift corn or wheat base acres.

Alternatively, you can elect to establish new base acreages equal to your actual planted and prevented planted acres of each crop during 1998 to 2001. If a crop was not grown in a certain year, that year counts as zero acres. Under this option you cannot shift acres from other crops into your soybean base.

In general, if your old corn base is 20 percentage points or more higher than your new base would be, it will not pay

Summary of Payments, Acres and Yields

Payment	Payment Rate per bu.	Payment Acres	Payment Yield
Loan deficiency	County loan rate – posted county price	Actual harvested acres	Actual harvested bu.
Direct	Fixed rate	85% of old or new base	Old program yield
Counter cyclical	Target price – direct payment rate - higher of loan rate or market price	85% of old or new base	Old or new program yield

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to update base acres. This will vary according to how much you can increase your corn program yield, however.

Program Yields

If you do not update base acres, you cannot update your program yields. You will keep your established yields for corn, oats, or other bases. However, you do not have an established soybean yield, so it is calculated as 78 percent of your 1998-2001 average yield. If you had a low yield in any one of those years, you can use 75 percent of the county average soybean yield for that year instead.

If you do update your base acres, then you have three choices for program yields:

1. Keep your old program yields, including the soybean yield as described above.
2. Update yields to 93.5 percent of your average yields for 1998-2001.
3. Update yields to your old yields plus 70 percent of the difference between your old yields and your 1998-2001 average yields.

Average yields are calculated as the total bushels produced from 1998-2001 divided by the total planted acres during that period. Again, you can substitute 75 percent of the county average yield in years that your yields were lower. The decision to update yields affects counter cyclical payments, only, not direct payments. Direct payments always use "old" program yields.

If you updated base acres, it will probably pay to update yields, as well. If your new yields are more than 28 percent higher than your old yields, use the 93.5 percent option.

Example: Program yields. Current established program yield for corn is 120 bushels per acre.

Actual yields:	Corn	Soybeans
1998	135	40
1999	155	55
2000	165	47
2001	145	58
Average	150	50

Program yields could be:

a) Use old yields:	Corn	120
	Soybeans	50 x .78 = 39
b) Update yields, method 1	Corn	150 x .935 = 140
	Soybeans	50 x .935 = 47
c) Update yields, method 2	Corn	120+.70 x (150 –120)=141
	Soybeans	50 + .70 x (50 – 39)=47

Loan Deficiency Payments

The same rules and procedures for loan deficiency payments and market assistance loans will apply as before—only the national average loan rates have been changed. The new national average loan rates are:

National Average Loan Rates

	Corn	Soybeans	Oats	Wheat
Previous	$1.89	$5.26	$1.21	$2.58
2002-2003	$1.98	$5.00	$1.35	$2.80
2004-2007	$1.95	$5.00	$1.33	$2.75

The county loan rates were also revised. In Iowa the new county loan rates are $.12 higher for corn in most counties and $.26 lower for soybeans in all counties. If the "posted county price" that is designated daily by the Farm Service Agency is below your county loan rate, you can apply for a loan deficiency payment equal to the difference, on the bushels you actually produce each year.

Direct Payments

Direct payments are calculated based on your old program yields and calculated "old" soybean yield, only, and are fixed once you determine your base acres. The payment calculation is:

Direct payment = payment rate x old program yield
x 85% of base acres

Payment rates per bushel are specified as follows:

- Corn $.28
- Soybeans $.44
- Oats $.024
- Wheat $.52

The example below shows how the direct payments per acre might compare. As mentioned before, it will usually be beneficial to maximize corn base acres, and shift any oats base acres to soybeans.

Comparison of Direct Payments

	Corn	Soybeans	Oats	Wheat
Payment rate per bu.	$.28	$.44	$.024	$.52
x old yield (example)	120	39	60	50
= payment per program acre	$33.60	$17.16	$ 1.44	$26.00
x 85% = payment per base acre	$28.56	$14.59	$1.22	$22.10

Counter Cyclical Payments

Counter cyclical payments are made when national average prices are below the target levels specified in the bill by more than the amount of the direct payment rate. Target prices for 2002 and 2003 are as follows:

- Corn $2.60
- Soybeans $5.80
- Oats $1.40
- Wheat $3.86

The payment rate is equal to the target price minus the higher of the national season average market price **or** the national

loan rate, minus the direct payment rate for the same crop. The season average price for corn and soybeans is measured from September of the year the crop is harvested through the following August. The total counter cyclical payment is equal to the payment rate times the program yield (old or new) times 85 percent of the base acres. The example below shows what some typical payments could be. This is the maximum payment, which would occur when the national season average market price is below the national loan rate for each crop.

Comparison of Counter Cyclical Payments

	Corn	Soybeans	Oats	Wheat
Target price	$2.60	$5.80	$1.40	$3.86
– loan rate	1.98	5.00	1.35	2.80
– direct payment rate	.28	.44	.024	.52
= payment rate per bu.	$.34	$.36	$.026	$.54
x updated program yield (example)	141 bu.	47 bu.	60 bu.	50 bu.
= payment per program acre	$47.94	$16.92	$1.56	$27.00
x 85% = payment per base acre	$40.75	$14.38	$1.33	$22.95

Timing of Payments

Loan deficiency payments or marketing loans can be taken any time from harvest until May 31. Direct payments for 2002 crops will be paid as soon as possible after December 1; however, FSA will deduct advance AMTA payments on 2002 crops first. In the future, up to 50 percent of the direct payments will be paid in December prior to the crop year, and the rest in October in the harvest year. Counter cyclical payments will be made up to 35 percent in October of the harvest year (based on projected prices), up to 35 percent in February, and the remainder after September 1.

Payment Timeline

	December	October	December	February	May	September
	Prior year	<—— Crop year ——>		<————Following year————>		
LDP		Anytime from harvest to May 31				
Direct	Up to 50%	remainder				
Counter cyclical		Up to 35%		Up to 35%		remainder

Payment Limitations

New payment limitations are in effect for each type of payment:

- LDPs and loans $75,000 (no limit if you use generic certificates)
- Direct payments $40,000
- Counter Cyclical $65,000
- Total $180,000

Payment limits are applied separately to each type of payment. Limits are doubled for two spouses or multiple interests.

Comparison of FAIR act and FSRIA

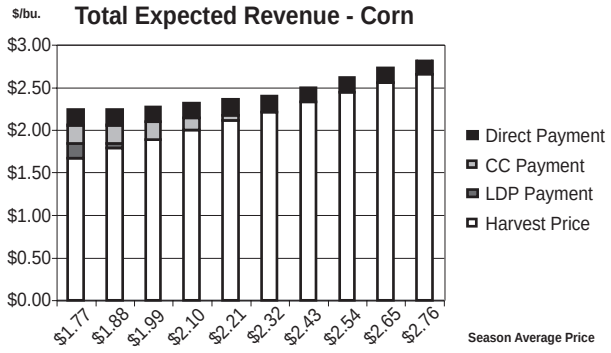
Compared to the 1996 FAIR act plus Market Loss Assistance and Oilseed payments made in 2001, the safety net provided by FSRIA is slightly higher. The following example illustrates the minimum total revenue per bushel that can be expected, assuming market prices plus the loan deficiency payment are equal to the county loan rate, the old corn program yield is 80 percent of the actual yield, and new program yields are 93.5 percent of actual yields.

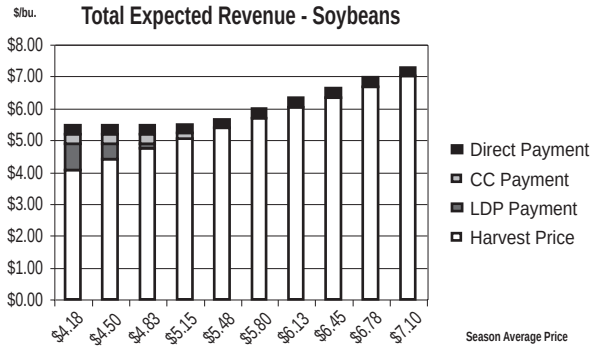
Example: Minimum revenue per harvested bushel

	FAIR 2001		FSRIA 2002	
	Corn	Soybeans	Corn	Soybeans
Market price (example)	$1.66	$4.30	$1.66	$4.30
Loan deficiency payment (example)	.10	.81	.22	.55
AMTA payments x 85% x 80%*	.39			
Oilseed payment		.14		
Direct payment x 85% x 80%*			.19	.29
Counter cyclical payment x 85% x 93.5%*			.27	.29
Total revenue	$2.15	$5.25	$2.34	$5.43

*depend on program yields, not actual yields.

The graphs below illustrate how the mix of revenue would change as the national average price increases. This example assumes that the actual selling price is equal to the posted county price, and both are $.10 per bushel below the national average market price.





As the market price increases, the loan deficiency payment will decrease and finally disappear when the posted county price reaches the county loan rate. If the national average price becomes higher than the national loan rate, the counter

cyclical payment will begin to decrease, and will reach zero when the national price equals the target price minus the direct payment rate ($2.32 for corn and $5.36 for soybeans). The direct payment is not affected by actual prices. Note that both direct and counter cyclical payments depend on program yields, not actual yields, so the example values per harvested bushel will change as yields change. Under higher prices, FSRIA will actually provide less total revenue than FAIR did. This is because the new counter cyclical payments phase out as prices rise. This assumes that the MLA and Oilseed Payments under FAIR would have continued under higher prices, which might not necessarily have happened.

Note that for a farm with a high corn base, total revenue may actually be **less** under the new bill, because payments are now more evenly set between corn and soybeans. In either case, though, farms with a high corn base fare better than farms with smaller corn bases.

Actions to Take

Producers and owners should begin assembling information about their crop acres and harvested bushels from 1998-2001 so that the process can be completed as soon as possible. If bases and yields are not updated, current base acres and program yields will be used. However, soybean yields will still need to be submitted to assign a soybean program yield. Acceptable information includes sales records, warehouse reciepts, and FSA storage measurements. If yield information is not available, 75 percent of the county average yields will be used. Each farm number, as designated by the Farm Service Agency, will require a seperate decision regarding acres and yields.

2002 FSRIA Commodity Programs Payment Worksheet

Name of producer or farm:							FSA farm number:	
	Payment Acres	(a) Corn	(b) Soybeans	(c) Oats	(d) Wheat	(e) Total	(f) SB base acres	Soybean base acres = col. e each year minus line 6, col. e, but not more than col. b each year
1	1998 acres							
2	1999 acres							
3	2000 acres							
4	2001 acres							
5	Average of 1998-2001 acres							lines 1+2+3+4 / 4
6	Current PFC base acres							
7	Calculated soybean base						Same as line 5, col. f	
8	Base acres to shift to soybeans	-	+	-	-	Add shifted acres to SB base, subtract others.		
9	Base acres, adjusted					Line 7 + line 8 for SB, line 6 – line 8 for others		
10	Base acres to use					Choose line 5 or line 9.		
11	Payment acres (85% of base)					85% x line 10		
	Payment Yields	Corn	Soybeans	Oats	Wheat			
12	1998 bushels					Substitute 75% of the county average yield if it is higher than the farm yield in any year. Exclude from the averages any years that no acres of a crop were grown.		
13	1999 bushels							
14	2000 bushels							
15	2001 bushels							
16	Average of 1998-2001 yields					.25 x (Lines 12 + 13 + 14 + 15) / line 5		
						Soybean yield =		
17	A. Current USDA program yields					.78 x 1998-2001 average yield, line 16		
18	B. Updated yields (method 1)					= .935 x 1998-2001 average yields, line 16		
19	C. Updated yields (method 2)					Current yield, line 17 + .70 x (line 16 – line 17)		
20	Payment yields to use (A, B or C)					With old base acres you must use A, line 17. You must use the same line for all crops.		
21	**Payments for 2002**	Corn	Soybeans	Oats	Wheat			
22	Direct payment rate for 2002	$.28	$.44	$.024	$.52			
23	Direct payment					Line 11 x line 17 x line 22		
24	National target price	$2.60	$5.80	$1.40	$3.86			
25	National average loan rate	$1.98	$5.00	$1.35	$2.80			
26	National season avg. market price					Enter your estimates.		
27	Counter cyclical payment rate					Line 24 - larger of line 25 or line 26 – line 22		
28	Counter cyclical payment					Line 11 x line 20 x line 27		
29	Direct plus counter cyclical pmts.					Line 23 + line 28		
30	Total payments for all crops					Sum line 29 for all crops.		

An electronic spreadsheet version of this worksheet is available from Iowa State University Extension online at http://www.extension.iastate.edu/feci/

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