Agricultural Marketing Policy Center MSU - Bozeman

BRIEFING

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Loan Deficiency Payments and Minor Crops

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Objective Analysis for Informed Decision Making

Loan Deficiency Payments or LDPs provide valuable price protection in times of low grain prices. As market prices fall below government-established loan rates, farmers are eligible to collect the difference between the loan rate and the posted county price. In principle, the program assures farmers of receiving the commodity loan rate for their crop.

Along with traditional crops like wheat and feed grains, the LDP program exists for many minor oilseed crops as well. Like the traditional crops, loan rates for minor crops are set at the county level. On a daily basis, the USDA's Farm Service Agency (FSA) computes a "posted county price" which serves as a measure of the local price for the crop.

The posted county price is based on the commodity's price in some terminal or central market. A transportation adjustment is made to provide a local measure. If the posted county price for the day is below the loan rate, then a producer is eligible to collect the difference, which is the LDP. The timing of this decision as well as the quantity to collect on an LDP is at the discretion of the producer.

Because LDP rates change on a daily basis, it is important to monitor these prices just like you would commodity prices. You can find daily LDP rates by crop and county on the USDA-FSA website at the following address:

http://www.fsa.usda.gov

Maintaining Beneficial Interest

To be eligible for LDP's on a crop, a producer must maintain beneficial interest. A producer retains beneficial interest if the producer has:

- Control of the Commodity
- Risk of Loss
- Title to the Commodity.

The producer must retain beneficial interest in the commodity from the time of harvest through the date the LDP is requested. According to USDA-FSA guidelines (1996), the following definitions apply to beneficial interest:

Control of the Commodity: Producer retains the ability to make all decisions affecting the movement, sale, and the request for a loan or an LDP.

Risk of Loss: The producer is responsible for loss of or damage to the commodity. If insured, any indemnity must be payable to the producer.

Title to the Commodity: A producer is considered to have transferred the title of the commodity if the producer has sold or delivered the commodity to the buyer or delivered warehouse receipts to the buyer. The transference of title may occur before the producer receives payment.

In general, not all advance sales contracts give the buyer beneficial interest when the contract is signed. For example, forward contracts, price later contracts and contracts for future delivery gives the buyer an interest in the commodity at a time set forth in the contract or at a time implied by law. The producer gives up beneficial interest when the payment is made, but not when the contract is signed.

However, if the contract contains certain clauses regarding loan or LDP requirements, then the producer may give up beneficial interest. Examples of such clauses are:

- The buyer may require the producer to obtain a loan or an LDP.

- The producer may obtain a loan or an LDP, only with prior approval of the buyer.

Addendums to specific contracts can also be used to clarify the beneficial interest between a producer and a buyer. Consult your local FSA office for advice on contracts and beneficial interest as conditions are subject to change.

References

USDA-FSA. "Beneficial Interest Requirements for Loans and Loan Deficiency Payments, Excluding Sugar and Tobacco." Farm Program Fact Sheet, July, 1996.

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