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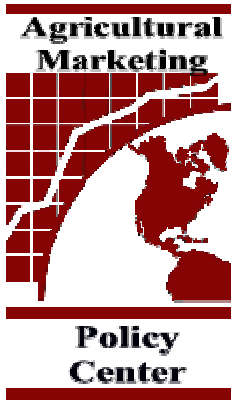
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BRIEFING

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Loan Deficiency Payments for Commodities Harvested as Other-Than-Grain

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Objective

Analysis

for Informed

Decision Making

Introduction:

In the Yellowstone River Valley (and a few other irrigated areas of Montana) over 50,000 acres of corn are annually harvested for silage. Additionally, between 275,000 and 350,000 acres of small grains are annually harvested for hay throughout Montana. Under certain conditions corn for silage and grains harvested for hay may be eligible for loan deficiency payments, or "LDPs".

An LDP for a commodity is a per bushel or per hundredweight cash payment available from the USDA. An LDP is the difference between the county loan rate for a commodity and the posted- county price for a commodity. County loan rates are set annually for each loan commodity in relation to its national loan rate and the location of the county relative to the commodity's terminal markets. A posted-county price for a commodity is a designated terminal price for the commodity plus a negative differential that reflects transportation and handling charges between local and terminal markets.

LDPs change each business day or week. LDPs for corn, barley, oats and other coarse and small grains change daily. LDPs for minor

oilseed and pulse crops change weekly. LDPs are generally larger when seasonal or cyclical market prices are relatively low so that posted-county prices are substantially less than county loan rates.

The intent of legislation underlying LDPs was to offer producers per bushel or per hundredweight cash payments to discourage producers from placing grain under Commodity Credit Corporation (CCC) loans. If producers did not place these commodities under these nonrecourse marketing assistance loans, the USDA was assured that loan settlement would not result in the forfeiture of grain to the government.

Beginning in the 1998 crop year, LDPs were extended to commodities harvested as "other-than-grain" (primarily harvested for silage and hay) even though CCC loans are not available for commodities harvested as silage or hay.

Eligible Commodities:

Commodities eligible for LDPs when harvested as other-than-grain include wheat, corn, grain sorghum, barley, oats, rice, soybeans, sunflower seed, sesame

seed, rapeseed, canola, safflower, flaxseed, mustard seed, crambe, dry peas, small chickpeas, and lentils. These are loan commodities, as specified in the Farm Security and Rural Investment Act of 2002. These commodities are covered under that legislation's marketing assistance loan provisions.

To be eligible for an LDP a commodity must be mechanically harvested. For Montana producers, this generally means commodities harvested as silage or hay. Loan commodities that are grazed are not eligible for LDPs. However, the graze-out program, that offers payments in lieu of LDPs, is available to producers of wheat, barley, oats, and triticales.

Eligible Producers:

Producers are not required to enter into pre-production or pre-harvest contractual arrangements with the Farm Service Agency (FSA) to be eligible for LDPs. But producers must file an annual crop acreage report on all cropland, identifying the specific acres of each commodity harvested as other-than-grain. Producers must comply with all other eligibility requirements that apply to grain-based LDPs.

Producers must have beneficial interest in their harvested commodities when they request LDPs. A producer has beneficial interest if the producer retains: (1) control of the commodity; (2) risk of loss; and, (3) title to the commodity.

Control of a Commodity means a producer keeps the ability to make all decisions affecting the commodity. For example, the producer maintains the right to sell the commodity. Risk of Loss means a producer is responsible for any loss or damage to the commodity or is eligible to receive any indemnity on the

commodity. Title to the Commodity remains with the producer as long as the producer has not sold or delivered the commodity.

LDP Request Process:

Producers may request an LDP on the acres of a commodity harvested as other-than-grain.

County-level FSA committees are responsible for making production determinations for commodities harvested as hay or silage that reflect the anticipated grain yield had the crop been harvested for grain. **Each crop year it must be determined that a commodity harvested as hay or silage could have been harvested as grain.**

Furthermore, if a commodity has been affected by any disaster such as drought, hail, high winds, or excess moisture, the yield for the commodity must be adjusted to reflect the yield of the commodity if it had been harvested as grain. An example of county-level FSA committee considerations would be assessing the likelihood of a long growing season corn maturing for grain during a cool growing season with an early frost.

To process LDP requests for commodities harvested as other-than-grain, the acres harvested must be certified and supporting information provided including the variety of the crop planted, the planting date, and quantity harvested. A request for payment may be approved when the maximum eligible quantity is determined by a county FSA committee.

FSA may use one of five methods for determining the maximum eligible quantity of a commodity harvested as other-than-grain. County-level FSA committees are responsible for adjusting the

results of any of these methods to reflect local production practices and growing conditions.

Method 1 is applicable for establishing a reasonable yield for a commodity harvested as other-than-grain from drought-affected acreage.

Method 2 is applicable for establishing a reasonable yield for a commodity harvested as **hay or silage** when there is like production. If there is actual production harvested as grain on the same farm, that production may be considered comparable to the crop harvested as other-than-grain. Alternatively, a yield for the commodity harvested as other-than-grain may be set based on the applicable production of three similar farms.

Method 3 is used for establishing a reasonable yield for a commodity harvested as other-than-grain if actual production harvested as grain on the same farm or comparable actual production on three similar farms is not available at the time of the LDP request, or no other method is applicable. This method allows the county-level FSA committee to determine the maximum eligible yield based on its judgment and knowledge of practices and growing conditions in the county.

Method 4 may be used to establish a reasonable yield for a commodity harvested as **silage**. FSA is allowed to use a conversion factor to determine the bushel equivalent per ton of harvested silage. This method is applicable **only** to weighed production. The bushels per ton

conversion factors are: 7.94 for corn; 4.08 for oats; 6.99 for wheat; 5.56 for grain sorghum; 6.47 for barley; and 5.00 of soybeans. Tons of silage per acre are multiplied by these factors to determine the bushels of grain per acre. County-level FSA committees are charged with adjusting these yields for reasonableness based on their knowledge of practices and growing conditions in their county.

Method 5 is used if no other method, except Method 1, is available to determine the bushels equivalent of **hay** per acre. The following yields, in bushels per acre, would be assigned: 64.50 for corn; 30.25 for oats; 19.85 for wheat; 34.75 for grain sorghum; 29.15 for barley; and 19.50 for soybeans. County-level FSA committees are charged with adjusting these yields for reasonableness based on their knowledge of practices and growing conditions in the county.

Example LDP Requests:

Consider a producer in Gallatin County who harvested 20 tons of corn silage per acre from 100 acres that could have been harvested as grain. The producer requested an LDP through the FSA office. FSA personnel applied Method 4 and used the conversion factor of 7.94 per ton of corn silage and provided an initial estimate of 159 bushels per acre of corn. The local FSA committee lowered the yield to 135 bushels per acre because there was evidence that the short season

variety harvested for silage would not provide the grain yield estimated by the standard conversion factor. So, on the 100 acres that the producer harvested for silage, the approved total production was 13,500 bushels. On November 3, the day the LDP was requested, the corn LDP was \$0.26 per bushel in Gallatin County. The total LDP for this producer was \$3,510; [(100 acres of corn) x (135 bushels of corn per acre)] x (\$0.26 per bushel).

Likewise, consider corn harvested as silage in another county. Late in the fall a corn producer in Sheridan County harvested 20 tons of silage per acre from 135 irrigated acres. The producer requested an LDP through the local FSA office where personnel applied the conversion factor of 7.94 tons of corn silage and provided an initial estimate of 159 bushels per acre. When this estimate was reviewed by the county FSA committee, the committee determined, based on growing conditions that prevailed during the growing season (cool summer weather and an early fall frost) and the producer's late planting date, that the corn harvested for silage **could not** have been harvested for grain. Therefore, the corn silage was not eligible for an LDP.

Finally, consider a producer in Carter County who harvested 100 acres of barley for hay with a yield of 1.7 tons per acre. This producer, who will feed the hay this winter,

requested an LDP through the FSA office. The producer noted barley was not harvested for grain elsewhere on the farm in the current year but that the barley harvested for hay **could have** been harvested for grain. Therefore, FSA personnel could not use other on-farm yields for the per bushel yield determination. But several nearby farms had harvested the same variety of barley grown under similar growing conditions and production practices and had already requested and received LDPs on their barley harvested as grain. Therefore, FSA used Method 3 and identified the actual production on three similar farms for which the average barley yield was 50 bushels per acre and assigned this yield to the producer. On November 3, the day the LDP was requested, the barley LDP was \$0.33 per bushel in Carter County. The total LDP for this producer was \$ 1,650; [(100 acres of barley) x (50 bushels of barley per acre)] x (\$0.33 per bushel). If actual production from similar farms had not been available, and no other method, was applicable, FSA personnel would have used Method 5 for yield determination, which would have provided the producer with an assigned barley yield of only 29.15 bushels per acre.



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