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New USDA loan repayment rate system effective April 15

By Agri-Pulse Staff

Starting April 15, USDA will use "an improved and more stable system" for determining non-recourse marketing assistance loan repayment rates and loan deficiency payment rates for wheat, feed grains, pulse crops, oilseeds, wool, mohair and honey. No changes are being made to the loan repayment system for cotton, peanuts and rice.

Agriculture Secretary Tom Vilsack said "The new method will moderate fluctuations of the loan repayment rate. In keeping with President Obama's commitment to American agriculture, this decision reduces the effects daily market volatilities have on loan repayment rates and provides more certainty for producers who have taken advantage of marketing assistance loans or loan deficiency payments."

The 2008 Farm Bill gave the Secretary authority to establish a loan repayment rate that may be determined as the lesser of the loan rate plus interest and a rate based on: 1) average market prices during the previous 30 days, or 2) an alternative method the secretary may develop.

Beginning April 15, 2009, for wheat, corn, grain sorghum, soybeans, barley, oats, canola, flaxseed and sunflower seed, USDA's Commodity Credit Corporation (CCC) will determine and publish daily loan repayment rates based on the average market prices during the preceding 30 days. At the same time, CCC will announce each day a repayment rate based on the preceding five days. The new method will replace the previous one which was based on the previous day's market rates. The effective alternative repayment rate will be the lower of either the 30-day average or the 5-day average.

The 30-day method will reflect a 30-day moving average of all terminal market prices for the crop, adjusted by the difference between the applicable national loan rate and the county loan rate. The 5-day method will reflect a 5-day moving average of applicable terminal market prices adjusted by applicable county differential and terminal adjustments.

Vilsack said this new loan repayment method will minimize potential forfeitures, accumulation of CCC stocks, CCC storage costs, market impediments and discrepancies in benefits across state and county boundaries.

Until now, the loan repayment rate for a county was based on the daily posted county price for the commodity, and this rate was adjusted by any premiums and discounts made to a non-recourse marketing assistance loan at the time the loan was made.

Starting on or after April 15, for pulse crops (lentils, dry peas, small chickpeas, and starting with the '09-crop year, large chickpeas), crambe, mustard seed, rapeseed, safflower, sesame seed, wool, mohair and honey, CCC will determine and publish loan repayment rates once a week based on average market prices during the preceding 30 days. CCC will also announce an alternative repayment rate using current methodology each week. The effective repayment rate will be the lower of either the 30-day average or the alternative repayment rate. No alternative repayment rate will be available for honey.

Additionally, the 2008 Farm Bill removed the requirement for the Secretary to establish loan and loan repayment rates based on feed grade for peas, and number 3 grade for lentils and small chickpeas. Effective on or after April 15, loan repayment rates for 2008-crop pulse marketing assistance loans will be based on U.S grade #1.

For further information, visit the FSA Web site at http://www.fsa.usda.gov

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