The U.S. Marketing Loan Program

The 2002 Farm Act required USDA to implement marketing loans for the first time for the 2002-07 crops of dry peas, lentils, and small chickpeas. Under the Commodity Credit Corporation (CCC) loan program, producers may pledge all or part of their production of a commodity as collateral and, in turn, receive a loan equal to the product of the loan rate per unit (e.g., cwt) and the number of product units placed under loan. The loans are "nonrecourse," which means that the Government must accept the commodity under loan as repayment of the loan principal plus interest, if the producer so desires.

The marketing loan program provides producers with an effective grower price not lower than the loan rate, thereby reducing market risk.[5] Under marketing loan provisions, producers may (under certain conditions) repay a 9-month nonrecourse loan at the CCC estimated local market price when it is less than the loan rate plus accrued interest and other charges. The difference between the loan rate and the repaid value is called a marketing loan gain (MLG). Thus, the loan rate becomes the effective grower price when the market price falls below the loan rate. Alternatively, producers may opt to receive a loan deficiency payment (LDP), the difference between the loan rate and the marketing loan repayment rate. To be eligible for an LDP, the producer must have ownership of the commodity. The producer must also agree not to put the commodity under loan. Most producers have elected to take the LDP rather than the CCC loan.

[5]The marketing loan can raise the expected grower price and lower price risk, even when the market price is expected to exceed the loan rate.

If the producer holds the grain after taking an LDP, he or she no longer has price protection from the marketing loan program and may end up with an effective price (LDP + market sale price) higher or lower than the loan rate, depending on the eventual sales price.

The marketing loan program has changed over time. For the 2002 dry pea and lentil crops, the original loan rate and posted marketing loan repayment rates used to calculate the LDPs and MLGs were based on U.S. No. 1 grade, with discounts for lower grades. In 2003, the base grades used for the marketing loan repayment rates were lowered to feed grade for dry peas and No. 3 grade for lentils and small chickpeas (Skrypetz, Feb. 24, 2006). This change raised the per unit level of LDPs and MLGs for these pulse crops and raised the possibility of achieving an effective price greater than the loan rate. Two regions for dry pea loan rates were established to better reflect the prices received by producers—the West region (including Washington and Idaho) and East region (including North Dakota and Montana). The difference in the regional loan rates reflects local supply and demand conditions, as well as a quality differential for dry peas between the two regions. When the marketing loan program was implemented, LDPs for dry peas were identical across the West and East regions. Loan rates for lentils were differentiated for the two regions beginning in 2006 (table 2).

Loan program benefits vary for dry peas and lentils, depending on whether posted weekly loan repayment rates exceed or fall short of the loan rate. For the 2002 crop, the loan program was used for both dry peas and lentils in limited quantities; however, more than 75 percent of the loans were redeemed without marketing loan gain. LDPs were also received by lentil

growers. In 2003, marketing loan program benefits (both LDPs and MLGs) were received by dry pea growers. A few lentil growers also used the loan program, but did not receive marketing loan benefits. For the 2004 crop, dry peas were eligible for benefits throughout the year, but lentils were not eligible until late in the crop year (Lucier and Jerardo, 2006). Table 3 shows details of price support program activity for dry peas and lentils from 2002/03 to 2006/07.

Table 2
Loan rates for dry peas and lentils in the United States

Item	2002	2003	2004	2005	2006	2007
			Dollars per cwt			
National average:						
Dry peas	6.33	6.33	6.22	6.22	6.22	6.22
Lentils	11.94	11.94	11.72	11.72	11.72	11.72
West region:						
Dry peas	6.33	6.68	6.63	6.61	6.63	6.63
Lentils	--	--	--	--	12.76	13.31
East region:						
Dry peas	6.33	5.89	5.84	6.03	6.1	6.12
Lentils	--	--	--	--	11.36	10.97

Sources: Lucier and Jerardo, 2002; USDA news releases.

Table 3
Marketing loan program outlays for U.S. dry peas and lentils

Item	Unit	2002/03	03/04	04/05	05/06	06/07
			—Dry peas—			
Loan deficiency payments:						
Applications	*Number*	0	3,626	5,612	7,931	7,608
Quantity	*1,000 cwt*	0	5,203	13,174	14,878	14,013
Value	*$1,000*	0	13,914	31,416	35,207	29,246
Unit value	*$/cwt*	0	2.67	2.38	2.37	2.09
Marketing loan gains:						
Loans made	*Number*	57	16	50	172	139
Gain quantity	*1,000 cwt*	0	73	281	909	640
Gain value	*$1,000*	0	119	710	2,129	1,020
Average. gain	*$/cwt*	0	1.62	2.53	2.34	1.59
			—Lentils—			
Loan deficiency payments:						
Applications	*Number*	1,442	0	177	2,765	2,806
Quantity	*1,000 cwt*	1,898	0	355	3,527	2,600
Value	*$1,000*	2,375	0	114	6,059	12,650
Unit value	*$/cwt*	1.25	0	0.32	1.72	4.86
Marketing loan gains:						
Loans made	*Number*	9	57	230	363	179
Gain quantity	*1,000 cwt*	0	0	502	769	404
Gain value	*$1,000*	0	0	579	3,169	1,578
Average. gain	*$/cwt*	0	0	1.15	4.12	3.91

Source: Compiled by USDA, ERS from data of USDA, Farm Services Agency.