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Farm Bill Primer: The Marketing Assistance Loan Program

Background

The Marketing Assistance Loan (MAL) program has been a significant feature of U.S. farm policy since the 1930s. The 2014 farm bill (Agricultural Act of 2014, P.L. 113-79) extended the MAL program for crop years 2014 through 2018. For details, see CRS Report R43448, *Farm Commodity Provisions in the 2014 Farm Bill (P.L. 113-79)*.

A MAL Is Nonrecourse

The MAL program—operated by the U.S. Department of Agriculture (USDA)—provides both a floor price and interim financing for certain commodities—referred to as loan commodities. A participating producer may put a harvested loan crop under a nine-month, nonrecourse loan valued at a statutory commodity loan rate (**Table 1**). Nonrecourse means that USDA must accept the forfeited crop pledged as collateral for full payment of an outstanding loan.

If local market prices for the crop increase above the loan rate (plus interest), a producer may repay a MAL and reclaim the crop. If market prices remain below the loan rate, then other program options (described below) are available to producers, including repayment of the loan at a lower rate, forfeiture of the crop, or taking a loan deficiency payment (LDP) in lieu of a MAL. MAL program benefits are available on the entire crop produced, but no benefits are available for any crop losses.

Eligible Loan Commodities

The list of eligible loan crops has expanded over the decades and now includes several field crops plus wool, mohair, and honey. (See **Table 1** for a list of eligible commodities and their respective loan rates.) The mix of supported crops reflects historical policy goals and compromises. The most recent additions were pulse crops (dry peas, lentils, chickpeas) in 2002.

MAL Program Benefits

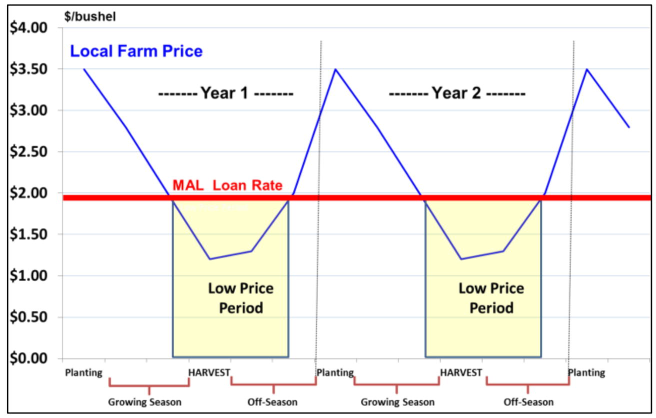
Generally farm prices are lowest at harvest time, when supplies are plentiful (**Figure 1**). The MAL program offers producers several alternatives to selling their crops at the harvest-time market price.

A MAL as Interim Financing

The traditional option was to use the MAL program as a temporary operating loan to help meet cash flow needs for the farm while delaying sale of the crop until more favorable market conditions emerge. Thus, a producer puts a harvested loan crop under a nine-month, nonrecourse loan valued at the statutory commodity-specific loan rate. The loan uses the crop as collateral (in other words, the loan benefits are "coupled" to current production), and the loan rate, in effect, establishes a price guarantee. Then, as the market year progresses, use of the crop—whether as feed, food, industrial processing, biofuels feedstock, or export—reduces the available supply and steadily pushes prices higher. When market prices have increased above the loan rate (plus interest), a producer may then repay the loan and reclaim the crop.

Figure 1. Traditional Crop Cycle and Price Pattern

(Hypothetical Example for Two-Year Period)



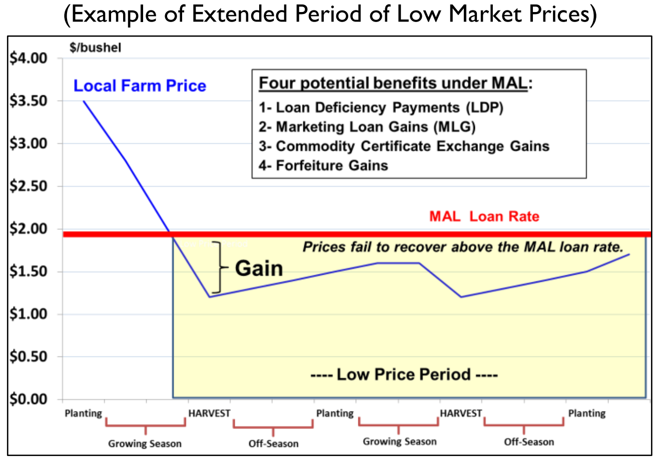
Source: CRS.

Note: Crop prices are generally lowest at harvest time when supply is greatest. Prices increase as post-harvest consumption reduces supply and then decline again as a new crop approaches harvest.

During the 1950s, 1960s, and 1980s, market prices remained below loan rates for extended periods (**Figure 2**). This led to frequent loan forfeitures and large government stock ownership at relatively great cost to taxpayers, and it created an environment where farmers were growing crops based on relative loan rates rather than market prices. To lower costs and reduce government ownership of grains and oilseeds, additional program features were added beginning in the 1980s to avoid forfeiture of the crop under loan.

Figure 2. Four Types of Additional MAL Benefits

(Example of Extended Period of Low Market Prices)



Source: CRS.

Notes: When USDA-announced prices are below the MAL loan rate, then four program benefits are available.

Repayment Prices Announced by USDA

USDA regularly announces alternative loan repayment prices that may vary above or below MAL loan rates with market conditions. For example, USDA announces daily posted county prices—that is, terminal prices adjusted for transportation costs from the county to the terminal—for operating grain and oilseed MAL repayment provisions. Producers may compare the repayment prices announced by USDA for their localities with the statutory MAL loan rates for each eligible commodity before selecting from among the potential MAL program benefits.

For cotton and rice, USDA collects international reference prices, which are converted to a U.S. location by adjusting for transportation costs. These "adjusted world prices" are announced weekly for operating the cotton and rice MAL repayment provisions.

Special MAL Loan Repayment Benefits

When USDA-announced repayment prices are below the statutorily fixed loan rate, then a producer can opt for a loan deficiency payment (described below) in lieu of a MAL or, for a crop under loan, select from four alternate repayment options (**Figure 2**).

1. LDP. Rather than taking a MAL when the USDA-announced repayment price is below the loan rate, farmers may request a LDP with the payment rate equal to the difference between the loan rate and loan repayment rate.

2. Marketing Loan Gain (MLG). A participating farmer with a crop under loan can repay the loan at the USDA-announced repayment price and pocket the difference (between the loan rate and the repayment rate) as an MLG.

3. Commodity Certificate Exchange. A farmer may use commodity certificates—paper certificates with a dollar denomination that may be exchanged for commodities in USDA inventory—to repay a MAL loan at the lower USDA-announced price and avoid any payment limit associated with the gain.

4. Forfeiture. A producer can forfeit the pledged crop to USDA at the end of the loan period. Any price gains associated with forfeiture are not subject to payment limits.

Eligibility Criteria and Payment Limits

Producers must meet eligibility requirements to participate in the MAL program and are subject to annual payment limits (with the noted exceptions of any gains under commodity certificates and forfeiture). Commodity certificates and payment limit issues are discussed in more detail in CRS Report R44739, *U.S. Farm Program Eligibility and Payment Limits*.

Current MAL Program Status

Since 2006, market prices for many program crops have moved significantly above MAL loan rates. The MAL program's usefulness as a risk management and marketing tool varies widely across program crops depending on the relationship between farm prices and the statutory loan rates. (Loan rates are expressed as a percentage of average annual farm prices for the 2014-2016 crop years in **Table 1**.) For example, since 2014 the MAL program has offered greater price protection for peanuts, cotton, and sugar crops than for pulse crops (dry peas, lentils, and chickpeas) and feed grains (corn, sorghum, barley, and oats).

More Information

For details on how the MAL price protection varies across program crops, see CRS Report R44914, *Farm Safety-Net Payments Under the 2014 Farm Bill: Comparison by Program Crop*. For details on the farm safety net, see CRS In Focus IF10191, *Overview of Farm Safety Net Programs*.

Table 1. MAL Loan Rates by Commodity

Commodity	Unit	MAL Loan Rate	% of Avg. Farm Price[c]
Wheat	$/bu.	$2.94	60%
Corn	$/bu.	$1.95	55%
Sorghum	$/bu.	$1.95	58%
Barley	$/bu.	$1.95	37%
Oats	$/bu.	$1.39	39%
Upland cotton[a]	$/cwt.	$52.00	99%
ELS cotton	$/cwt.	$79.77	58%
Rice, all	$/cwt.	$6.50	66%
Soybeans	$/bu.	$5.00	52%
Other oilseeds[b]	$/cwt.	$10.09	56%
Peanuts	$/cwt.	$17.75	87%
Peas, dry	$/cwt.	$5.40	45%
Lentils	$/cwt.	$11.28	41%
Chickpeas, large	$/cwt.	$11.28	37%
Chickpeas, small	$/cwt.	$7.43	31%
Wool, graded	$/cwt.	$115.00	79%
Wool, ungraded	$/cwt.	$40.00	28%
Mohair	$/cwt.	$420.00	86%
Honey	$/cwt.	$69.00	33%
Sugar, raw cane	$/cwt.	$18.75	75%
Sugar, refined beet	$/cwt.	$24.09	75%

Source: MAL loan rates: 2014 farm bill (P.L. 113-79; Section 1202); farm prices: USDA, National Agriculture Statistics Service.

Notes: bu. = bushel, cwt. = 100 lbs., ELS = Extra Long Staple

a. The marketing loan rate for upland cotton is the average of the farm price received for upland cotton for the preceding two years but within a range of $45/cwt. and $52/cwt.

b. Other oilseeds include sunflower seed, rapeseed, canola, safflower, flaxseed, mustard seed, crambe, and sesame seed. The percentage share of average farm price represents a weighted average of other oilseeds.

c. Adjusted world prices are used in lieu of farm prices for comparison of cotton and rice loan rates.

Randy Schnepf, rschnepf@crs.loc.gov, 7-4277

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