

Marketing Loans and Realized Per-Unit Revenues

The availability of marketing loans introduces a number of new influences into the production and marketing decisions of farmers and the resulting level of revenues.

Basic Marketing Loan Operation

In the simplest approach to using marketing loans, a producer can effectively receive a per-unit revenue equal to the loan rate by taking the marketing loan benefit and immediately selling the crop, assuming the sales price equals the posted county price. The marketing loan benefit augments the market price so the total per-unit revenue comes partly from the marketplace and partly from the government. In this situation, marketing loans provide an effective per-unit revenue floor at the loan rate for eligible crops, with a counter-cyclical effect occurring through marketing loan benefits when the price is below the loan rate.

Marketing loans, however, do not establish a floor for market prices since commodities typically remain available to the marketplace rather than being acquired by the government through loan program forfeitures. For the basic marketing loan case, when the expected market price for a given crop is below its loan rate, the loan rate provides the economic incentive to plant that crop because marketing loan benefits augment market receipts. As a result, producers plant more acreage to supported crops than they otherwise would. Further, if loan rates do not reflect relative market prices, the mix of crops planted also may be affected.

Realized Per-Unit Revenues

In practice, however, marketing loans have introduced a two-step crop marketing decision process that has resulted in national average per-unit revenues received by farmers that exceed commodity loan rates. In the first step, the farmer decides when to take the marketing loan benefit (LDP or marketing loan gain, if the crop is placed under loan). In the second step, the farmer decides when to sell the crop.

The program has only a few restrictions on these decisions. First, LDPs can be paid on a crop only when the crop is eligible to be placed under the loan program. Loans may be taken out at any time following harvest through the following March or the following

May, depending on the crop. Second, for a crop placed under loan, potential marketing loan gains have to be taken by repaying the loan prior to its expiration (and forfeiture of the loan collateral to the government). Finally, a farmer must still own a crop (beneficial interest) when the marketing loan benefit is taken. That is, the farmer may not take the benefit after the crop is sold. Thus, the first marketing decision of when to take the marketing loan benefit must precede the second marketing decision of when to sell the crop.

In the basic marketing loan operation described earlier, taking the marketing loan benefit and selling the crop occur simultaneously, and the farmer assures a per-unit revenue equal to the loan rate. In practice, however, farmers tend to take the marketing loan benefit when prices are seasonally low and sell the crop at a later date when market prices have risen. Thus, the first marketing decision is to take the marketing loan benefit when that benefit is relatively large, followed by the second marketing decision to sell the crop later when prices have risen. Ironically, the best time to make the first marketing decision and take the marketing loan benefit is when prices are lowest, an atypical situation for sellers to seek.

Because of the seasonality of prices for an annually produced commodity such as field crops, this two-step marketing procedure results in marketing loans facilitating farmers receiving an effective per-unit revenue that on average exceeds the loan rates for eligible crops (see Marketing Loan Benefits box, page 8).

As with any annual average price or per-unit revenue concept, some producers receive more than the average and some less. For example, a risk-averse producer may simply take the marketing loan benefit and immediately sell the crop, thereby receiving the loan rate level of per-unit revenue provided directly by the program. However, other producers will successfully use the two-step marketing procedure and benefit from the direct program effects and the seasonality of prices to attain a greater per-unit revenue.

Raising the realized per-unit revenue above the loan rate also increases the economic incentive to plant crops. This further encourages producers to plant more land to supported crops than they otherwise would and, as discussed earlier, may also influence the mix of crops planted.

Marketing Loan Benefits Push Per-Unit Revenues Above Loan Rates

Marketing loan benefits for 1999 crops illustrate how farmers' average realized per-unit revenues are raised above the loan rate. Through mid-August 2000, 95 percent of the 1999 soybean crop had received a marketing loan benefit. About 88 percent had received an LDP, with an average payment rate of \$0.91 per bushel; and about 7 percent had received a marketing loan gain averaging \$0.76 per bushel. The rest of the 1999 soybean crop did not receive a marketing loan benefit, although some 1999 soybean commodity loans were still outstanding.

Accounting for LDPs, marketing loan gains, and the portion of the crop with no marketing loan benefit, the weighted-average marketing loan benefit for the 1999 soybean crop was about \$0.85 per bushel. This

benefit augmented the season-average price of \$4.65 per bushel, raising the average per-unit revenue for soybeans to \$5.50 per bushel, \$0.24 above the 1999 national soybean loan rate of \$5.26 per bushel.

Similar benefits went to other field crops with marketing loan provisions in 1999: wheat, corn, grain sorghum, barley, oats, rice, and upland cotton (table), as well as several minor oilseeds. For all of these crops, marketing loan benefits supplemented market receipts, resulting in average per-unit total revenues exceeding the national loan rates. As with soybeans, marketing loan benefits for wheat, corn, grain sorghum, oats, upland cotton, and rice raised the average per-unit revenue above the loan rate from a season-average price that was below the loan rate.

Realized average per-unit revenues increased by marketing loan benefits, 1999

Crop	Season average price	Marketing loan benefit	Average per-unit revenue	1999 commodity loan rate	Realized average revenue above loan rate
<i>Dollars/bushel</i>					
Corn	1.80	0.23	2.03	1.89	0.14
Sorghum	1.55	0.25	1.80	1.74	0.06
Barley	2.15	0.14	2.29	1.59	0.70
Oats	1.10	0.19	1.29	1.13	0.16
Wheat	2.50	0.40	2.90	2.58	0.32
Soybeans	4.65	0.85	5.50	5.26	0.24
<i>Dollars/hundredweight</i>					
Rice	6.10	1.80	7.90	6.50	1.40
<i>Dollars/pound</i>					
Upland cotton	0.449	0.198	0.647	0.5192	0.127

August 2000 WASDE report (USDA, WAOB) and August 16, 2000 marketing loan data (based on cumulative LDP and loan activity data from Farm Service Agency's PSL-82R report). Upland cotton price is the average of August 1999 through June 2000.