

**UNDERSTANDING LOAN DEFICIENCY PAYMENTS FOR BARLEY  
NORTH DAKOTA BARLEY COUNCIL, FARGO, ND  
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**Overview**

One of the challenges in grain marketing is determining when to take the loan deficiency payment (LDP). The LDP is related to markets, and thus is a moving target. The purpose of this article is to provide an overview of how the LDP program works, thus assisting producers in optimizing their utilization of the LDP in their farm marketing plans.

**How the LDP Program Works**

Counties in North Dakota are assigned two terminal market locations: Minnesota and the Pacific Northwest. There are two other locations for barley: the Gulf and Kansas City. Locations for each state are assigned by the USDA Kansas City Commodity Office (KCCO). In most cases, all counties within a state are assigned the same two markets. The assigned markets will vary by state.

The terminal market prices for barley are announced daily by KCCO, based on cash price surveys conducted for the previous day. Each county is assigned a differential for each assigned terminal market for each commodity. That differential is subject to change annually. In addition, depending on market conditions, the KCCO makes an additional differential adjustment to specific markets to be used by all counties that are assigned that commodity market when it is determined necessary to reflect market changes.

The national loan rate for all commodities is set by Statute. County loan rates are subject to adjustment each crop year. Each county is assigned a loan rate based on statutory changes for the year (if any) for the location compared to terminal markets, and prior year market price changes.

When calculating a Posted County Price (PCP), the higher of the two prices is utilized (after the adjustment for differentials) to determine the LDP rate. The following example will help illustrate this point.

Assume that Cass County (North Dakota) had the following differentials for barley:

---Minnesota Terminal Market:       -\$0.46 per bushel  
---PNW Terminal Market:               -\$1.00 per bushel

Further assume that the terminal prices are as follows:

---Minnesota Terminal Market:       \$1.83 per bushel  
---PNW Terminal Market:               \$2.46 per bushel

Additional differential adjustments implemented by KCCO are as follows:

---Minnesota Terminal Market:   -\$0.02 per bushel  
---PNW Terminal Market:         -\$0.19 per bushel

The PCP for Cass County is calculated as follows:

--Minnesota Terminal Market:  $\$1.83 - (\$0.46 \text{ differential} + \$0.02 \text{ adjustment}) = \$1.35/\text{bu.}$

--PNW Terminal Market:  $\$2.46 - (\$1.00 \text{ differential} + \$0.19 \text{ adjustment}) = \$1.27/\text{bu.}$

The PCP is higher for the Minnesota terminal market than for the PNW terminal market. Therefore, the PCP for Cass County at this point in time is \$1.35 per bushel.

The loan rate minus the PCP equals the LDP. In this example:

$\$1.63 \text{ per bushel loan rate} - \$1.35 \text{ per bushel PCP} = \$0.28 \text{ per bushel LDP.}$

The PCP for a loan commodity is intended to average near the average local cash market price over a 12 month period. It will not equal the local cash price on any given date for many reasons, including the fact that each local buyer (grain company) may build in their own margin for the purchase price to compensate for late shipments and other market factors. Commodity Credit Corporation cannot make adjustments for each local margin situation.

USDA-FSA has conducted county price surveys in the past, and found that for most commodities, the average PCP during the year is at or below the local average cash price.

### **Additional Information**

There is a common belief that the differentials are solely based upon the cost of transportation. However, the KCCO has indicated that differentials are not intended to reflect transportation costs alone. Differentials are based upon historical price relationships between local market prices and the terminal markets assigned to a specific state. These price relationships reflect yearly averages, not daily absolutes. For example, not all barley in North Dakota goes to a terminal market. Feed lots and local markets that purchase barley for feed use also impact local prices. Transportation to a terminal market is not a consideration for these local use markets. This is why periodic adjustments are made to various commodity market differentials (such as the adjustment to the PNW market outlined in the above example).

In some cases, adjustments to a differential are not needed in a county or state, but when it is assigned to a terminal location, all counties that use that location have to make the adjustment. Occasionally an exception is made for a state, but that is the exception and not the common practice.

Like any other adjustment, it is not retroactive. Producers need to understand that filing an LDP application is no different than making a marketing decision to sell the crop. If they sell today and the price increases tomorrow, they are locked into the sales price from today. It is no different with an LDP. Once they complete an application and submit it to a county FSA Office, they will receive the rate in effect on the date the application is received.

Any quantity included on an LDP application is not eligible for a CCC loan. For example, if a producer takes the LDP on 5,000 bushels, the producer cannot take out a CCC loan those same 5,000 bushels. The statute does not allow a CCC loan to be taken out on bushels that have received an LDP.