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Farm Bill Primer: MAL and LDP Farm Support Programs

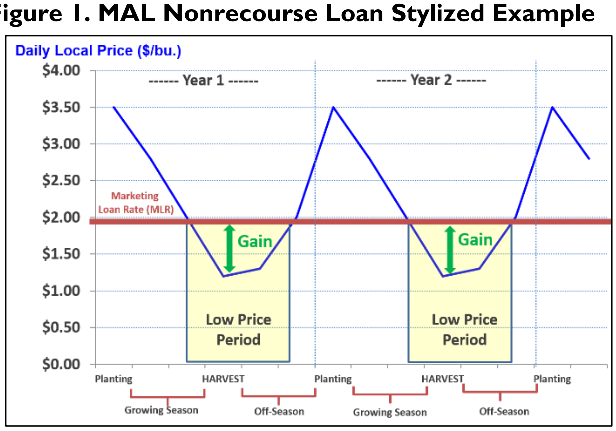
The Agriculture Improvement Act of 2018 (2018 farm bill; P.L. 115-334) reauthorized the Marketing Assistance Loan (MAL) and Loan Deficiency Payment (LDP) programs for crop years 2019-2023. The MAL program has been a significant feature of U.S. farm policy since the 1930s. Congress has authorized the LDP program since the 1980s. The MAL program provides loans to farmers collateralized by eligible stored commodities. The MAL program also provides price support to borrowers when market prices drop below levels specified in statute. The LDP program provides payments to farmers eligible to receive price support under the MAL program. Farmers cannot receive MAL and LDP program benefits for the same commodity and must meet eligibility requirements.

Marketing Assistance Loan Program

The MAL program helps farmers meet cash flow needs by providing financing for commodities pledged as collateral, allowing farmers to delay sales until later in the marketing year when market conditions may improve. The MAL program offers producers or processors—depending on the commodity—nine-month-term, *nonrecourse and recourse loans* for qualifying stored commodities. Under nonrecourse loans, the U.S. Department of Agriculture (USDA) must accept the forfeited crop pledged as collateral as full payment of an outstanding loan. Under recourse loans, the borrower is liable for repaying the loan in full.

The loans are valued at commodity-specific *loan rates* established in the 2018 farm bill (**Table 1**). If local market prices increase above the loan rate, a farmer may repay the MAL plus interest and reclaim the crop. If market prices fall below the MAL rates, farmers can repay nonrecourse loans at the market price or surrender the commodity used as collateral in lieu of repayment. Farmers receive the difference between the lower market price and the higher MAL rate as a *marketing loan gain* (**Figure 1**).

Figure 1. MAL Nonrecourse Loan Stylized Example



Source: Congressional Research Service (CRS).

Table 1. Marketing Assistance Loan (MAL) Rates and 2020-2021 Marketing Year Average Prices (MYAP)

Commodity	Unit	MAL Rate	2020-2021 MYAP
Wheat	$/bu.	$3.38	$5.05
Corn	$/bu.	$2.20	$4.53
Sorghum, grain	$/bu.	$2.20	$5.04
Barley	$/bu.	$2.50	$4.75
Oats	$/bu.	$2.00	$2.77
Upland Cotton[a]	$/cwt.	$45.00-$52.00	$66.30
ELS cotton	$/cwt.	$95.00	$119.00
Rice, long-grain	$/cwt.	$7.00	$12.60
Rice, medium-grain	$/cwt.	$7.00	$20.10
Soybeans	$/bu.	$6.20	$10.80
Other oilseeds[b]	$/cwt.	$10.09	Various
Peanuts	$/cwt	$17.75	$21.00
Peas, dry	$/cwt.	$6.15	$9.84
Lentils	$/cwt.	$13.00	$18.20
Chickpeas, large	$/cwt.	$14.00	$23.30
Chickpeas, small	$/cwt.	$10.00	$20.20
Wool, graded	$/cwt.	$115.00	$166.00
Wool, ungraded	$/cwt.	$40.00	NA
Mohair	$/cwt.	$420.00	$517.00
Honey	$/cwt.	$69.00	$210.00
Sugar, raw cane	$/cwt.	$19.75	$42.13
Sugar, refined beet	$/cwt.	$25.38	$63.36

Sources: CRS calculations using 2018 farm bill (P.L. 115-334, §1202 and §1301); USDA National Agricultural Statistics Service Quickstats database; and various USDA Economic Research Service commodity outlook reports.

Notes: bu. = bushel, cwt. = 100 pounds, ELS = extra-long staple, NA = not available.

a. The MAL rate for upland cotton is the average MYAP for the preceding two years, limited to a range of $45/cwt. and $52/cwt.

b. Other oilseeds include canola, crambe, flaxseed, mustard seed, rapeseed, safflower, sesame seed, and sunflower seed.

USDA announces daily *posted county prices* for most MAL commodities. For cotton and rice, USDA announces weekly prices based on international reference prices. Farmers may compare the posted prices announced by USDA with the statutory MAL loan rates for each eligible commodity when selecting from among the potential MAL program benefits.

Farmers may repay loans at any time before maturity without penalty. Interest rates are fixed at 1% above the cost of borrowing from the U.S. Treasury. Commodities may be stored in an approved warehouse or on the farm.

Loan Deficiency Payment Program

When market prices fall below the MAL rates, the LDP program may provide direct payments to producers equal to the amount of MAL marketing loan gains, in lieu of executing a MAL loan. The farmer may then market the crop or store it for future sale. LDPs are available for the same commodities eligible for MALs, excluding ELS cotton and including unshorn pelts.

Appropriations and Program Outlays

The MAL and LDP programs receive mandatory appropriations of "such sums as necessary" through the Commodity Credit Corporation (CCC). Program outlays vary from year to year based on program enrollments and market conditions (**Table 2**).

Table 2. MAL and LDP Program Outlays FY2019-FY2022

$ millions, not adjusted for inflation

	FY2019	FY2020	FY2021	FY2022
MAL recourse loans	43	63	17	16
MAL nonrecourse loans	7,616	8,394	6,446	6,283
Loans repaid	-7,239	-6,502	-7,161	-6,236
LDPs	1	24	10	2
Total	421	1,979	-688	65

Source: CRS using the Budget of the U.S. Government, Appendix, for FY2021, FY2022, and FY2023.

Notes: Values for FY2022 are executive branch estimates. Values for other years are actuals.

2018 Farm Bill Changes

The 2018 farm bill increased the statutory loan rate for certain commodities, authorized recourse loans for certain lower-quality commodities, and changed how market prices are calculated for cotton, among other changes. The 2018 farm bill also excluded MAL and LDP benefits from payment limits.

Issues for Congress

MAL loans incentivize farmers to store more of their production after harvest, potentially allowing for more consistent supplies and market prices throughout the year. MALs and LDPs also augment farm incomes during periods of low prices. The programs' usefulness for farm risk management varies across commodities depending on the relationship between farm prices and the statutory loan rates. Under the 2018 farm bill, taxpayer costs for the programs have been low in comparison with other farm support programs, as market prices have tended to exceed MAL loan rates for most eligible commodities. MAL and LDP program outlays are *coupled* (i.e., tied) to annual production, a consideration for U.S. commitments to limit trade-distorting support under the World Trade Organization's Agreement on Agriculture.

During the 1950s, 1960s, and 1980s, market prices remained below loan rates for extended periods. This led to frequent loan forfeitures and large government stock holdings at relatively high costs to taxpayers. It also led farmers to grow crops based on loan rates rather than market prices. To lower costs and reduce government ownership of grains and oilseeds, Congress created the LDP program and additional MAL program features in the 1980s to avoid forfeitures of crops under loan. The list of eligible loan crops has expanded over the decades. The most recent additions were dry peas, lentils, and small and large chickpeas in 2002.

The 2018 farm bill removed limitations on the maximum benefits that an individual or legal entity can receive per year from the MAL and LDP programs. Some policymakers advocated for tighter limits to lower program costs, respond to concerns about payments to large farms, and reduce potential incentives to expand large farms at the expense of small farms. Others contend that larger farms should not be penalized for the economies of size and efficiencies they have achieved.

In 2020, USDA created additional farm support programs using funds appropriated by Congress and funded through the CCC to respond to the COVID-19 pandemic. These programs provided higher levels of price support for commodities eligible for MALs and LDPs and price support for commodities ineligible for MALs and LDPs. Congress could consider whether to modify the MAL and LDP programs to reduce the need for future supplemental commodity support, taking into account that any expansion in these programs under the existing farm bill baseline may require funding reductions for other farm bill priorities.

For additional background, see the following CRS reports:

- CRS Report R45730, *Farm Commodity Provisions in the 2018 Farm Bill (P.L. 115-334)*
- CRS Report R46248, *U.S. Farm Programs: Eligibility and Payment Limits*
- CRS Report R46577, *U.S. Farm Support: Outlook for Compliance with WTO Commitments, 2018 to 2020*
- CRS In Focus IF11764, *U.S. Agricultural Aid in Response to COVID-19*

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