

Payment Limits in the 2014 Farm Bill

National Cotton Council

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The 2014 Farm Bill contains a new payment limit restriction that applies to the accumulation of all benefits for all crops from marketing loan gains and loan deficiency payments (LDP), and for covered commodities, payments under the Agricultural Risk Coverage (ARC) and Price Loss Coverage (PLC) programs. Under existing “direct attribution” rules, no person or legal entity may receive more than \$125,000 in benefits in any crop year. Peanuts have a separate \$125,000 limit.

Prices are at a level that currently generate marketing loan gains and loan deficiency payments for upland cotton. Common marketing practices for cotton will result in many growers being unaware of the amount of marketing loan gains being accumulated against their respective limits. Growers who have sold options-to-purchase or delivered cotton to marketing cooperatives will not control the exact timing of marketing loan redemptions and thus not know the accumulated benefits assigned against their limit.

As part of a NCC Payment Limit Working Group, industry members representing producers, ginners, marketing cooperatives and private merchants met with officials from USDA to stress that common cotton marketing practices prevent many growers from individually tracking their assigned benefits. The data on individual bales at each redemption date are known by the specific merchant or cooperative but not the producer. In addition, merchants and cooperatives will be unaware if there are other bales owned by the producer being redeemed by other merchandisers.

USDA has informed the Working Group that it is in the process of establishing a system for data collection and management regarding benefits from marketing loan programs. Data for marketing loan gains and LDPs generated either directly at the county office or through a loan servicing agent (LSA) or a marketing cooperative will be collected by USDA. At some point, USDA will disaggregate the data to eventually provide a detailed report of marketing loan gains and LDPs that are directly attributed to an individual. It is the Working Group’s understanding that this will be an internal report for use by USDA and will be generated prior to the issuance of any benefits under the ARC or PLC programs. ARC and PLC payments for the 2014 crop will be made after October 1, 2015. Depending upon available limit remaining after the preliminary reconciliation of marketing loan benefits, producers could receive full, partial or no payments for covered commodities under ARC or PLC.

Since USDA is currently unable to provide an individual or entity timely payment limit status and to avoid market disruption, 2014 cotton marketing loans will be redeemed at the lesser of the AWP and loan principal plus interest. To avoid market disruption, NCC has recommended that 2014 loan redemptions continue to be allowed at the AWP regardless of the producer’s preliminary payment limit status. A final reconciliation could occur in March 2016 after the period when all marketing loans will have reached maturity. At that time, USDA’s final reconciliation would determine if any individuals received loan benefits in excess of the limit and seek repayment if necessary.

USDA has stated those producers who sold options-to-purchase and whose eventual redemption resulted in excess gains will individually receive notices to repay. Cooperative marketing pools will receive notice to repay any excess gains by individual pool participants.

The cotton industry is urging USDA to develop a means for producers to obtain timely information on accumulated marketing loan gains.

It is important for all members of the cotton marketing chain to be aware of the increased uncertainty and risks associated with the farm bill’s new payment limit provisions. Industry representatives will continue to work with USDA to mitigate potential disruptions in marketing and flow, and updates will be provided as the process continues to evolve.