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, loan deficiency payments (LDP), and for covered commodities payments under the Agricultural Risk Coverage (ARC) and Price Loss Coverage (PLC) programs. The limit is $125,000 per person or legal entity for benefits in any crop year. This limit is applied with direct attribution. Peanuts have a separate $125,000 limit.

Prices are at a level that currently generate marketing loan gains and loan deficiency payments (LDP) for upland cotton. Common marketing practices for cotton will result in most 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.

The National Cotton Council has met with officials from USDA to stress that common cotton marketing practices prevent most growers from individually tracking their assigned benefits. The data on bales redeemed from the marketing loan are known to the merchants and cooperatives but not the producer.

USDA has informed the Council 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 Council'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 year will be made after October 1, 2015. Depending upon available limit remaining after all marketing loan benefits are calculated, producers could receive full, partial or no payments for covered commodities under ARC or PLC.

USDA has stated that even if an individual has reached the payment limit, marketing loan redemptions of the 2014 crop will continue at the lesser of the AWP or loan principal plus interest. By March 2016, all cotton from the 2014 crop that had been entered into the marketing loan will have reached loan maturity. At that time, USDA will conduct a final reconciliation to 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 Council 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. The Council will continue to work with USDA to mitigate potential disruptions in marketing and flow and will update the industry as the process continues to evolve.