



# **ACRE Program & Payment Scenarios**

# Tuesday, October 06, 2009

#### Overview

We attempt to provide meaningful information about the Average Crop Revenue Election (ACRE) Program and provide some examples using several scenarios to give you a feel for how the ACRE program payments could provide revenue given a defined set of circumstances. The scenarios compare the DCP/CC program to the ACRE program which also has a Direct payment component to it. While it is impossible to show every scenario we have chosen some that we feel could develop over the course of this next years and the year 2012. We arranged the scenarios in sets, usually changing only one major value at a time.

When evaluating the scenarios it would be best to look for the changes for the values used within the sets of examples relative to its companion scenarios. For example, The first six scenarios were done in sets of 2 for easy comparison and are for the 2009 crop year, while scenarios 7 to 9 are for the 2012 crop year. We make reference to prior scenarios when appropriate. Also, look to see how the scenarios would best fit your farm operation, if they do.

We have found that ACRE appears to be a better fit for smaller operations because of the payment limitations (see limitations below), thus a farm under about 1,200 to 1,500 acres or even smaller may be the better candidate for the ACRE program. ACRE has a reduction in the loan rates by 30%, so you give up the first 30% of possible LDP's in ACRE. Because loan rates provide a floor on unlimited bushels, farmers may wish to keep the higher loan floor on as many bushels possible. In ACRE, those who use loan rates to provide cash flow will have access to less available capital and income if using the taxable income election. ACRE appears to provide better revenue protection for middle price levels vs. loan and LDP's and counter cyclical payments. This becomes apparent in some of the scenarios provided later on in the newsletter.

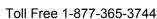
Producers who feel ACRE may be a benefit to them may wish to take a middle ground approach and enroll only part of their FSA farms into the program. One consideration would be to enroll an owned or primarily owned FSA farm rather than a rented farm because of the landowner issues of education and comfort with the potential rental value impact that a landowner may have with the ACRE program. An additional consideration may be how will your lender evaluate an operating line of credit if you enroll into the ACRE program and have a lower loan rate as a floor price.

See the July 29, 2009 MWAS special report on the "USDA ACRE Program" for additional perspective on the program.

Highlights of the ACRE program are: (Refer to USDA & FSA for official rules of the program)

Under the Average Crop Revenue Election (ACRE) Program, producers may receive revenue-based payments as an alternative to receiving price based counter-cyclical (CC) payments. Participation is for the crop years of 2009-2012, 2010-2012, 2011-2012, or 2012 with signup is by FSA farm number. Once the election is to enroll the farm in ACRE it remains in ACRE through the 2012 crop year. All producers and owners must agree to participate – this is called the election process. Producers then enroll by June 1 annually, this is similar to the annual DCP certification process.

Producers on participating ACRE Program farms must annually report acreage and production to FSA. Failure to do so may result in ineligibility. The RMA crop insurance production records are acceptable as are other records. Submission of the production records are due July 15<sup>th</sup> for the prior crop year. Thus you have until July 15, 2010 to submit records for 2009. In addition you have until next July 15<sup>th</sup> to supply the 5 year of production history for 2004-2008 that is used for the Olympic average benchmark yields. The 5 year Olympic average yield is calculated by disregarding the low and high yields and then averaging the three remaining yields. For years in which a crop was not grown a plug yield will be used. Also, if a plug yield is greater than your actual yield, the plug yield will be used for calculating the benchmark Olympic yield.





Direct payments are limited to \$40,000 per person or entity minus the 20 percent direct payment reduction, and ACRE payments are limited to \$65,000 plus the 20% direct payment reduction amount. The limitation is attributed to entities and individuals, including indirect amounts received through entities.

Annual Payment limitations for 2009 – 2012 to an individual's ID number are:

 Current DCP Program
 New ACRE Program

 DCP-Direct
 \$40,000
 ACRE-Direct \$32,000

 DCP-Counter Cyclical
 \$65,000
 ACRE-CC
 \$73,000

 Total
 \$105,000
 Total
 \$105,000

Marketing Loans Gains & LDP's - No Limits for DCP or ACRE

Persons or legal entities whose average **nonfarm** AGI exceeds \$500,000 are not eligible for direct, CC or ACRE payments. Also, persons or legal entities whose average **farm** AGI exceeds \$750,000 are not eligible for direct payments under the DCP and ACRE Programs.

ACRE payments are revenue-based payments and are tied to crop production and the National Average Market Price for planted, and considered planted, covered commodity crops or peanuts on the farm. ACRE payment acreage is limited to the total amount of **base acres** on the farm, and can only be issued for a crop if two triggers are met for the covered commodity crop or peanuts. State Trigger: The Actual State Revenue for the program year must be less than the State ACRE Guarantee. Farm Trigger: The participating farm's Actual Farm Revenue for the program year must be less the Farm ACRE Guarantee.

ACRE provides for potential payments on crops a producers **plants**, **not** on the farm's **base acres** or historical acres. The maximum base acres of the farm are then the maximum eligible cares to receive an ACRE payment for eligible crops. If a program crop is not planted, the farm will not qualify for any ACRE revenue payment. If more acres of eligible crops are planted than the base acres, the operator can prioritize the crops for payment or FSA will prorate the acres for payment eligibility.

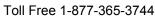
The ACRE program State Revenue Guarantee cannot change by more than 10% from the previous year's guarantee. The guarantee uses the State Benchmark Yield times the Acre Guarantee price. The 2009 guarantee price is the previous 2 year National Average Market price (2007 7 2008). For corn and soybeans the marketing year begins September 1 and ends August 31, thus the 2008 average price is not set yet. As of July 31, 2009 the estimated guarantee prices were \$4.13 for corn, \$10.05 for soybeans and \$6.63 for wheat. We used rounded off values in our examples.

This table shows the potential impact of the 10% cap and 10% cup in price change if that were to occur during each succeeding year and shows the maximum price change up or down for the respective year.

Acre Program Guarantee Price Maximum Changes												
	2009		Max Chg	2010	Max Chg	2011	Max Chg	2012				
Com	4.00	Cap	0.40	4.40	0.44	4.84	0.48	5.32				
		Cup	-0.40	3.60	-0.36	3.24	-0.32	2.92				
Soybeans	10.00	Cap	1.00	11.00	1.10	12.10	1.21	13.31				
		Cup	-1.00	9.00	-0.90	8.10	-0.81	7.29				
Wheat	6.75	Cap	0.68	7.43	0.74	8.17	0.82	8.98				
		Cup	-0.68	6.08	-0.61	5.47	-0.55	4.92				

USDA's July price range projections for the Actual 2009 National Average Market price are Corn \$3.35 - \$4.15 Soybeans \$8.30 - \$10.30 Wheat \$4.80 - \$5.80







#### **ACRE Scenarios**

Because we have not found or designed a multi-year spreadsheet that evaluates both changes in Yield and Price we are using price changes in the 2012 scenarios as the means to accommodate the State Revenue Guarantee price change.

In all the scenarios below we used a farm with a base of 500 acres for both corn and soybeans and 100 acres for wheat and considered that the entire base was planted to each respective crop. We did this since our model farm is based on 500 acres of each crop and also because it should be relatable to many farm operations in size.

We did not show any scenarios where the ACRE payment was not triggered, this would occur if the total revenue exceeded the trigger. What we did do was to show the maximum national price that would allow for the ACRE payment to be triggered at the State level and then worked the other parameters of the scenario as noted.

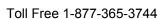
The new ACRE beats the current DCP program in scenarios # 2, 3, 5, 7 & 8. In scenario 2 we lowered the national average prices received by farmers to corn at \$2.50, soybeans at \$7.00, and wheat at \$4.50 with the result being very large ACRE program payments per acre. In scenario 3 we show an example with the actual state yield equal to the benchmark state yield with a result being an ACRE payment about twice that of the DCP payment. In scenario 5 we show an example with the actual state yield at about 10% below the benchmark state yield with a result is a very large ACRE payment. In scenario 7 we forward to the year 2012 and use an actual state yield 10% above the state benchmark and the guarantee price at the lowest possible level with actual national average prices at loan rates with a result of the ACRE program payment exceeding the DCP program payments by \$42.26 per acre for corn, \$25.14 for soybeans, and \$4.87 for wheat. For scenario 8 we used an actual state yield 20% larger than the benchmark yield and huge actual farm yields to show the impact of yields leapfrogging the benchmark yields with a result of the ACRE program payment exceeding the DCP program payments by \$42.26 per acre for corn, \$25.14 for soybeans, and \$4.87 for wheat.

The payments for DCP and ACRE are close to the same in scenarios #1, 4, 6, and 9. In scenario 1 we use an actual state yield 10% above the state benchmark yield and found that the farm actual yield could be about 20-25% above the farm benchmark yield. Scenarios 4 shows the state yield equal to the benchmark yield and show the maximum average national price that would still trigger the state level. For scenario 6 we show how close the national price can be to the guarantee price if the state actual yield is 10% below the state benchmark yield. The results are ACRE payments very similar to the DCP payment. In scenario 9 we use an example is that has 2012 actual yields that leap frog the benchmark yields, national average prices decline to loan rates and with the 2012 ACRE guarantee price will be at the lowest possible. This example shows how an extreme one year yield increase provided by technology could impact ACRE payments.

In the scenarios we show a DCP payment in the blue highlighted area that includes a direct payment and potential counter cyclical payment. The scenarios all have the same direct payment and UNLESS there is a counter cyclical payment shown, the per acre payment direct payment for corn is \$24.49 per acre, for soybeans it is \$13.56 per acre and for wheat \$4.07 per acre. You can compare this to the far right while box that shows the total ACRE program "Payment per Acre" of crop planted.

Bruce Babcock Iowa State published a paper that states, "For corn there is a 78% chance that IOWA farmers who sign up for ACRE will receive a payment. For soybeans, there is a 55% chance. Thus, the odds are good for both crops that ACRE will pay out in 2009." He calculates the average payout at \$80 for corn per acre planted and \$40 per acre for soybeans if IOWA state yields are 180 bu. for corn and 53 bu. for soybeans using national prices of corn at \$3.25 and soybeans at \$8.26.

University of Illinois study indicates that historically ACRE would have triggered a payment about 10% of the time.





#### Scenario 1: 2009 State Record Yields (about 10% above benchmark)

The premise for this ACRE example is that MN yields will exceed existing record yields of 174 & 45 bushel per acre by one bushel per acre for corn & soybeans in 2009. This example will then provide a basis for evaluations of the ACRE program if a record state yield is achieved or a yield 10% above the benchmark state yield. We used a farm with a base of 500 acres for both corn and soybeans and 100 acres for wheat.

A reason for starting with this yield assumption is that if we use an assumed 2009 guarantee price we can then determine the maximum 2009 National Average Market Price that would still trigger the state level (this was done to the nearest \$.05). A national price lower than the assumed national price or a lower actual state yield would produce a larger payment.

Then using the farm benchmarks we increased the 2009 actual farm yields to the maximum yield that would still trigger the farm level. The most useful portion of the farm yield segment to each individual producer would be to see how big the increase in the difference between the farm bench mark yield and the farm actual yield can be.

	Guarantee		Benchmark	Actual	Benchmark	Actual 2009	Farm Difference Yield
	2009 Price	Nat. Price	MN Yield	MN Yield	Farm Yield	Farm Yield	Benchmark vs. Actual
Corn	\$ 4.00	\$ 3.30	161	175	175	214	39 bu. 22%
Soybeans	\$10.00	\$ 8.00	41	46	53	67	14 bu. 26%
Wheat	\$ 6.75	\$ 5.40	51	57	63	80	17 bu. 27%

ACRE payments are based on a formula that uses an adjusted yield (farm expected yield divided by state benchmark) and the national price.

Payment		ACRE Program						Payment			
Comparison	Direct	Counter-cyclical	Total		Direct (80%)		ACRE		Total	Per	Acre
Corn	\$ 12,245	\$ -	\$ 12,245	\$	9,796	\$	951	\$	10,747	\$	21.49
Soybeans	\$ 6,781	\$ -	\$ 6,781	\$	5,425	\$	538	\$	5,963	\$	11.93
Wheat	\$ 2,036	\$ -	\$ 2,036	\$	1,629	\$	209	\$	1,838	\$	18.38

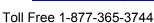
Thus, it appears that if record state yields or yields 10% above the current state benchmark are achieved it will take a national price near the lower end of USDA's current projected price range or lower for the ACRE program to trigger and then the total ACRE program payments would be less than the current DCP program.

Scenario 2: The results are significantly different using the same yields but lower 2009 national average prices as shown below.

	Guarantee Assur		Benchmark	Actual	Benchmark	Actual 2009	Farm Difference Yield
	2009 Price	Nat. Price	MN Yield	MN Yield	Farm Yield	Farm Yield	Benchmark vs. Actual
Corn	\$ 4.00	\$ 2.50	161	175	175	214	39 bu. 22%
Soybeans	\$10.00	<b>\$ 7.00</b>	41	46	53	67	14 bu. 26%
Wheat	\$ 6.75	\$ 4.50	51	57	63	80	17 bu. 27%

Payment		DCP		Α	CRE Program		Payment		
Comparison	Direct	Counter-cyclical	Total	Direct (80%)	ACRE	Total	Per Acre		
Corn	\$ 12,245	\$ -	\$ 12,245	\$ 9,796	\$ 64,334	\$ 74,130	\$ 148.26		
Soybeans	\$ 6,781	\$ -	\$ 6,78	\$ 5,425	\$ 25,305	\$ 30,730	\$ 61.46		
Wheat	\$ 2,036	\$ -	\$ 2,036	\$ 1,629	\$ 5,488	\$ 7,117	\$ 71.17		

Then the total ACRE program payments could be significantly exceed the current DCP program. The payment limitation of \$73,000 per ID for the ACRE portion could ultimately be the limiting factor.





### Scenario 3: 2009 State Yield Equal Benchmark Yield

The premise for this ACRE example is that for 2009 the state yield is equal to the state benchmark yield and for comparison reasons we used the same National Price as in scenario 1. Then using the same farm benchmark yield as scenario 1 we increased the 2009 actual farm yields to the maximum yield that would still trigger the farm level, note how big the increase in the difference between the farm bench mark yield and the farm actual yield can be. We continue to use a farm with a base of 500 acres for both corn and soybeans and 100 acres for wheat.

The resulting payments for the total ACRE program increased as compared to example 1 with the payment for corn being \$44,821 more while the soybean payment increased by \$38,766 and wheat was \$5,752 more than example 1.

	Guarantee		Benchmark	Actual	Benchmark	Actual 2009	Farm Difference Yield
	2009 Price	Nat. Price	MN Yield	MN Yield	Farm Yield	Farm Yield	Benchmark vs. Actual
Corn	\$ 4.00	\$ 3.30	161	161	175	195	20 bu. 11%
Soybeans	s \$10.00	\$ 8.00	41	41	53	60	7 bu. 13%
Wheat	\$ 6.75	\$ 5.40	51	51	63	71	8 bu. 13%

Payment	DCP						A	CRI	E Program		Payment		
Comparison	Direct	C	Counter-cyclical		Total		Direct (80%)		ACRE	Total	Per	Acre	
Corn	\$ 12	,245 \$	-	\$	12,245	\$	9,796	\$	21,867	\$ 31,663	\$	63.33	
Soybeans	\$ 6	5,781 \$	-	\$	6,781	\$	5,425	\$	22,075	\$ 27,500	\$	55.00	
Wheat	\$ 2	2,036 \$	-	\$	2,036	\$	1,629	\$	3,543	\$ 5,172	\$	51.72	

Scenario 4: We used the same yield criteria as in scenario 3 above and increased the 2009 National Average Market Price (in blue) to the maximum price that would still trigger the state level (this was done to the nearest \$.05). In this example the DCP and total ACRE program payments end up being nearly identical.

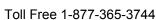
	Guarantee	Assumed	Benchmark	Actual	Benchmark	Actual 2009	Farm Difference Yield
	2009 Price	Nat. Price	MN Yield	MN Yield	Farm Yield	Farm Yield	Benchmark vs. Actual
Corn	\$ 4.00	\$ 3.55	161	161	175	195	20 bu. 11%
Soybeans	\$10.00	\$ 8.95	41	41	53	60	7 bu. 13%
Wheat	\$ 6.75	\$ 6.05	51	51	63	71	8 bu. 13%

Payment		A	CRE	Program		Payment			
Comparison	Direct	Counter-cyclical	Total	Direct (80%)		ACRE	Total	Per	Acre
Corn	\$ 12,245	\$ -	\$ 12,245	\$ 9,796	\$	3,645	\$ 13,441	\$	26.88
Soybeans	\$ 6,781	\$ -	\$ 6,781	\$ 5,425	\$	1,104	\$ 6,529	\$	13.06
Wheat	\$ 2,036	\$ -	\$ 2,036	\$ 1,629	\$	132	\$ 1,761	\$	17.61

Then the total ACRE program payments would be similar to the current DCP program. Thus, it appears that if actual state yields equal the state benchmark yield, then actual farm yields can be about 10% - 13% GREATER than the farm benchmark yields with the 2009 actual national prices used in scenario 4.

This example shows that it will take a national price near the lower end of USDA's current projected price range for Corn & Soybeans for the ACRE program to trigger.

USDA's July price range projections: Corn \$3.35 - \$4.15 Soybeans \$8.30 - \$10.30 Wheat \$4.80 - \$5.80





## Scenario 5: 2009Actual State Yield 10% below the State Benchmark Yield

The premise for this ACRE example is that for 2009 the state yield is 10% below the state benchmark yield and for comparison reasons we used the same National Price as in scenario 1 & 3. Then using the same farm benchmark yield as scenario 1 we increased the 2009 actual farm yields to the maximum yield that would still trigger the farm level, note how small an increase in the difference between the farm bench mark yield and the farm actual yield can be. We continue to use a farm with a base of 500 acres for both corn and soybeans and 100 acres for wheat.

The resulting payments for the total ACRE program increased as compared to scenario 1 with the payment for corn being \$20,916 more while the soybean payment increased by \$21,573 and wheat was \$3,334 more than scenario 1.

	Guarantee	Assumed	Benchmark	Actual	Benchmark	Actual 2009	Farm Difference Yield
	2009 Price	Nat. Price	MN Yield	MN Yield	Farm Yield	Farm Yield	Benchmark vs. Actual
Corn	\$ 4.00	\$ 3.30	161	145	175	179	4 bu. 2 %
Soybeans	\$10.00	\$ 8.00	41	37	53	54	1 bu. 2 %
Wheat	\$ 6.75	\$ 5.40	51	46	63	64	1 bu. 1.6%

Payment		DCP		Α	CRE Program		Payment
Comparison	Direct	Counter-cyclical	Total	Direct (80%)	ACRE	Total	Per Acre
Corn	\$ 12,245	\$ -	\$ 12,245	\$ 9,796	\$ 45,772	\$ 55,568	\$ 111.14
Soybeans	\$ 6,781	\$ -	\$ 6,78	\$ 5,425	\$ 39,304	\$ 44,729	\$ 89.46
Wheat	\$ 2,036	\$ -	\$ 2,036	\$ 1,629	\$ 6,321	\$ 7,950	\$ 79.50

Then the total ACRE program payments could be significantly exceed the current DCP program. The payment limitation of \$73,000 per ID for the ACRE portion could ultimately be the limiting factor.

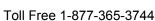
Scenario 6: We used the same yield criteria as in scenario 5 above and increased the 2009 National Average Market Price (in blue) to the maximum price that would still trigger the state level (this was done to the nearest \$.05)

	Guarantee					Actual 2009	Farm Difference Yield
	2009 Price	Nat. Price	MN Yield	MN Yield	Farm Yield	Farm Yield	Benchmark vs. Actual
Corn	\$ 4.00	\$ 3.95	161	145	175	179	4 bu. 2 %
Soybeans	\$10.00	\$ 9.95	41	<b>37</b>	53	54	1 bu. 2 %
Wheat	\$ 6.75	\$ 6.70	51	46	63	64	1 bu. 1.6%

Payment		DC	P		ACRE Program						Payment		
Comparison	Direct	Counter-	cyclical	Total	Direct (80%)		ACRE		Total	Per	Acre		
Corn	\$ 12,245	\$	-	\$ 12,245	\$ 9,796	\$	3,101	\$	12,897	\$	25.79		
Soybeans	\$ 6,781	\$	-	\$ 6,781	\$ 5,425	\$	458	\$	5,883	\$	11.77		
Wheat	\$ 2,036	\$	-	\$ 2,036	\$ 1,629	\$	168	\$	1,797	\$	17.97		

For this example the total ACRE program payments would be similar to the current DCP program.

USDA's July price range projections for the 2009 National Average Market price are Corn \$3.35 - \$4.15 Soybeans \$8.30 - \$10.30 Wheat \$4.80 - \$5.80





# Scenario 7: 2012 Actual State Yield about 10% above the State Benchmark Yield (New Record MN Yields) 2012 Guarantee price at lowest possible level & 2012 Actual national price equals loan rate

The premise for this ACRE example is that MN will have actual yields above the current record yields by one bushel for corn & soybeans in 2012 (about 10% above the then state benchmark yield) and that the ACRE guarantee price will be at the lowest possible declining 10% each of the three next years. We then used a 2012 national average price equal to current MN loan rates.

Then using the same farm benchmark yield as scenario 1 we increased the 2009 actual farm yields to the maximum yield that would still trigger the farm level, note how <u>LARGE an increase</u> in the difference between the farm bench mark yield and the farm actual yield can be and still trigger a payment. We continue to use a farm with a base of 500 acres for both corn and soybeans and 100 acres for wheat.

	Guarantee 2012 Price	Assumed Nat. Price	Benchmark MN Yield	Actual MN Yield	Benchmark Farm Yield	Actual 2012 Farm Yield	Farm Difference Yield Benchmark vs. Actual
Corn	\$ 2.92	\$ 1.85	161	175	175	280	105 bu. 60%
Soybeans	s \$ 7.29	\$ 4.90	41	46	53	80	27 bu. 51%
Wheat	\$ 4.92	\$ 2.90	51	57	63	105	42 bu. 67%

Payment			DCP		ACRE Program							yment
Comparison	Direct	С	unter-cyclical	Total		Direct (80%)		ACRE		Total	Pe	r Acre
Corn	\$ 12,495	\$	22,270	\$ 34,765	\$	9,996	\$	45,902	\$	55,898	\$	111.80
Soybeans	\$ 6,919	\$	9,996	\$ 16,915	\$	5,535	\$	23,954	\$	29,489	\$	58.98
Wheat	\$ 2,077	\$	3,078	\$ 5,155	\$	1,662	\$	5,928	\$	7,590	\$	75.90

Then the total ACRE program payments could significantly exceed the current DCP program. However, based on planting 500 acres of corn and 500 acres of soybeans the payment limitation of \$73,000 per ID for the ACRE has not been exceeded. In this scenario the ACRE program payment exceeds the DCP program payments by \$42.26 per acre for corn, \$25.14 for soybeans, and \$4.87 for wheat.

## Scenario 8: 2012 Actual State Yields Increase: 20% over benchmark

The premise for this ACRE example is that 2012 actual yields will leap frog the benchmark yields by 20% and the national average prices decline to loan rates. The ACRE guarantee price will be at the lowest possible declining 10% each of the three next years and the 2012 national average price is equal to current MN loan rates.

	Guarantee	Assumed	Benchmark	Actual	Benchmark	Actual 2012	Farm Difference Yield
	2012 Price	Nat. Price	MN Yield	MN Yield	Farm Yield	Farm Yield	Benchmark vs. Actual
Corn	\$ 2.92	\$ 1.85	161	193	175	280	105 bu. 60%
Soybeans	<b>\$ 7.29</b>	\$ 4.90	41	49	53	80	27 bu. 51%
Wheat	\$ 4.92	\$ 2.90	51	61	63	105	42 bu. 67%

Payment			DCP			A	Payment						
Comparison	Direct	Cou	Counter-cyclical Total		Total	Direct (80%)		ACRE		Total		Per Acre	
Corn	\$ 12,495	\$	22,270	\$	34,765	\$ 9,996	\$	30,518	\$	40,514	\$	81.03	
Soybeans	\$ 6,919	\$	9,996	\$	16,915	\$ 5,535	\$	15,878	\$	21,413	\$	42.83	
Wheat	\$ 2,077	\$	3,078	\$	5,155	\$ 1,662	\$	5,138	\$	6,800	\$	68.00	

In this scenario the ACRE program payment exceeds the DCP program payments by \$11.49 per acre for corn, \$8.99 for



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soybeans, and \$3.29 for wheat.

## Scenario 9: 2012 Actual State Yields Increase: 40% corn, 31% Soybean, 50% Wheat over benchmark

The premise for this ACRE example is that 2012 actual yields will leap frog the benchmark yields that the national average prices decline to loan rates and the 2012 ACRE guarantee price will be at the lowest possible. This example shows how an extreme one year yield increase provided by technology could impact ACRE payments.

	Guarantee 2012 Price	Assumed Nat. Price	Benchmark MN Yield	Actual MN Yield	Benchmark Farm Yield	Actual 2012 Farm Yield	Farm Difference Yield Benchmark vs. Actual
Corn	\$ 2.92	\$ 1.85	161	228	175	280	105 bu. 60%
Soybeans	s \$ 7.29	\$ 4.90	41	54	53	80	27 bu. 51%
Wheat	\$ 4.92	\$ 2.90	51	77	63	105	42 bu. 67%

Payment		DCP		A	Payment			
Comparison	Direct	Counter-cyclical	Total	Direct (80%)	ACRE	Total	Per Acre	
Corn	\$ 12,495	\$ 22,270	\$ 34,765	\$ 9,996	\$ 605	\$ 10,601	\$ 21.20	
Soybeans	\$ 6,919	\$ 9,996	\$ 16,915	\$ 5,535	\$ 2,417	\$ 7,952	\$ 15.90	
Wheat	\$ 2,077	\$ 3,078	\$ 5,155	\$ 1,662	\$ 266	\$ 1,928	\$ 19.28	

Then the DCP program payments exceed the total ACRE program payments <u>per acre planted</u> by \$48.33 for corn, \$4.08 for soybeans, and \$6.45 for wheat.

#### **Summary**

MWAS is not exceptionally fond of the ACRE program due to the lower loan rates, number of moving targets and other unknowns. Since an individual can define criteria that trigger a payment it is not exactly like buying a lottery ticket that has a random chance of a payoff. While we summarize some areas of what ACRE does and doesn't provide below, the list isn't meant to be all inclusive. If the ACRE program didn't have the lower loan rates it would be a more enticing program.

ACRE appears to provide better revenue protection for middle price levels vs. loan and LDP's and counter cyclical payments that provide low level price protection. This may be a benefit to livestock producers who have a floor price by feeding the corn crop to their livestock. This also may make it a better fit for the individual who forward sells much of their crop.

ACRE has a reduction in the loan rates by 30%, so you give up the first 30% of possible LDP's in ACRE. Because loan rates provide a floor on unlimited bushels, farmers may wish to keep the higher loan floor on as many bushels possible by staying with the current DCP program.

We have found that ACRE appears to be a better fit for smaller operations because of the payment limitations (see limitations above), thus a farm under about 1,200 acres or even smaller size may be the better candidate for the ACRE program.

Those who use loan rates to provide cash flow will have access to less available capital in ACRE and less income if using the taxable income election. This may be significant for livestock producers who use loan for cash flow.

Producers who feel ACRE may be a benefit to them may wish to take a middle ground approach and enroll only part of their FSA farms into the program. One consideration would be to enroll an owned or primarily owned FSA farm rather than a rented farm because of the landowner issues of education and comfort with the potential rental value impact that a landowner may have with the ACRE program.

An additional consideration may be how your lender will evaluate an operating line of credit if you enroll into the ACRE