**Interest Rate Example:**

This document explains how RMA will be using the interest rate to determine its portion of expected and Harvest costs. Refer to the Margin Protection Price Provisions Section I and Section II of the applicable crop price provision for detailed information..

To determine the interest rate, subtract the 30 Day Federal Funds quote from 100. For example, at the end of the interest rate projected input discovery period, the Federal Funds futures contract settles at 99.50. The Federal Funds rate is .50 percent (100-99.5) and 6.0 percentage points is added. The Margin Protection interest is 6.5 percent.

The interest cost is expressed as dollar/acre using the following method for both the Projected and Harvest interest rate. The interest rate is applied to the total of the fixed and variable costs for a period of six months. See the example box below: 6.5 percent x $220.00 x 6/12 = $7.15. The interest cost (dollars /acre) is added as part of the total projected (or harvest) cost.

The change in interest cost is reflected in the expected margin and the Harvest margin, because it impacts total cost each time. Following is an example where all other variables remain the same and only the interest rate increased which increased the costs at harvest.

| **Interest Calculation** | **Expected Cost** | **Harvest Cost** |
|---|---|---|
| Fixed Costs | $ 120.00 | $ 120.00 |
| Variable Costs | $ 100.00 | $ 100.00 |
| Fixed and Variable costs | $ 220.00 | $ 220.00 |
| Interest rate | 6.5% | 9.5% |
| Interest cost | $ 7.15 | $ 10.45 |
| **Total costs per acre** | **$ 227.15** | **$ 230.45** |

*Assumes no change in costs, except interest cost from Expected Cost to Harvest Cost

*Interest rate increased from 6.5% to 9.5%

*Increase in $3.30 in interest costs