United States Department of Agriculture
Risk Management Agency

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2007 COMMODITY INSURANCE FACT SHEET

# Cotton-Crop Revenue Coverage

## New Mexico, Oklahoma, Texas

**Crop Revenue Coverage** (CRC) provides revenue protection against a decline in market prices as well as a shortfall in production. Under CRC, the guarantee is in dollars. A loss situation arises when the dollar value of your production falls below the final dollar guarantee. CRC provides protection whether prices are rising or falling:

- In a year of rising prices, production shortfalls are compensated at the higher market-based harvest price. This is important if any lost production must be replaced at higher market prices to fulfill delivery on a forward contract;
- In years of falling prices, your minimum guarantee ensures that you will receive a pre-determined amount of income per acre, regardless of yields or prices.

### Causes of Loss

CRC provides protection against unavoidable loss of revenue due to the following causes in the insurance period:

Adverse weather conditions[1]
Failure of irrigation water supply[2]
Fire
Harvest price less than base price
Insects[3]
Plant disease[3]
Wildlife

[1]Natural perils such as hail, frost, freeze, wind, drought, and excess moisture. [2]If caused by an insured peril. [3]But not damage due to insufficient or improper application of recommended control measures.

### Insurance Period

Coverage usually begins when the insured crop is planted and ends the earliest of: (1) destruction of the crop, (2) harvest of the crop, (3) abandonment of the crop, (4) final adjustment of a claim, (5) January 31, 2007 for New Mexico, Oklahoma and some counties in Texas, (6) September 30, 2007 in Val Verde, Edwards, Kerr, Kendall, Bexar, Wilson, Karnes, Goliad, Victoria, Jackson counties in Texas, and all Texas counties lying south thereof.

### Important Dates

Note: Sales closing, final planting and acreage reporting dates vary by county. Consult a crop insurance professional for specific dates in your county.

### Definitions

**Coverage Level**— Levels of protection available are from 50 to 85 percent of approved average yield.

**Base Price**—The price used to calculate the minimum guarantee and the premium is based on the December New York Cotton Exchange (NYCE) futures average daily price during the period January 15—February 14 of the year the crop is planted. Note: Counties in Texas with a cancellation date of January 31, will have a different base price.

**Minimum Guarantee**—The guaranteed minimum dollar protection is the average yield X base price X coverage level percent:

> Example: 800 pounds per acre X $.60 X 75 percent = $360 per acre minimum guarantee

**Harvest Price**—The price used to determine calculated revenue and harvest guarantee is based on the December NYCE futures average daily price during November of the year the crop is planted. Note: Counties in Texas with a cancellation date of January 31, will have a different harvest price.

**Harvest Guarantee**—Average yield X harvest price X coverage level percent:

> Example: 800 pounds per acre produced X $.50 X 75 percent = $300 per acre harvest guarantee

**Calculated Revenue**—Value of your actual production determined by pounds produced X harvest price:

> Example: 200 pounds per acre produced X $.50 = $100 per acre calculated revenue

Note: The actual price you receive for selling your crop is **not** a factor in CRC calculations.

**Final Guarantee**— Higher of the minimum or harvest guarantee.

Note: Your premium will **not** increase if final guarantee is higher than the minimum guarantee.

**Indemnity**—Final guarantee – calculated revenue

Example: $360 – $100 = $260 indemnity

## Price Elections

| Year | State | Base Price* | Harvest Price** |
|---|---|---|---|
| 2007 | OK, NM, TX*** | .59 | ** |
| 2006 | OK, NM, TX*** | .60 | .49 |
| 2005 | OK, NM, TX*** | .50 | .50 |

* Available after February 14, 2007.
** Available after November 30, 2006.
*** Base and harvest price vary from county to county in Texas.

Price elections will be posted on the RMA Web site at: http://www3.rma.usda.gov/apps/pricesinquiry/

## Insurance Units

Your insurable acreage is grouped into a unit based on your selection of one of the following unit arrangements.

**Basic Unit:** A basic insurance unit includes all of your cotton acreage in the county by share arrangement. For example, the cotton acreage on your own farm (including land cash rented) would be one basic unit, while other land on shares with someone else would be a second basic unit. Premiums are reduced 10 percent for a basic unit.

**Optional Units:** If a basic unit consists of two or more farm serial numbers (FSN) and certain record-keeping criteria are met, you may select optional units by FSN. The 10-percent basic unit premium discount will not apply.

**Enterprise Unit:** An enterprise unit combines all your cotton in the county into one county-wide unit, regardless of ownership, share, or rental arrangement. A varying premium discount will apply, based upon the number of insured acres. You must qualify for two or more basic/optional units in order to be eligible for an enterprise unit.

## Loss Example

This example assumes average yield of 800 pounds per acre, base price of $.60, harvest price of $.50, 200 pounds per acre production-to-count, and 65 percent coverage level.

| | |
|---|---|
| 800 | Pounds per acre approved yield |
| x .65 | Coverage level |
| 520 | Pounds per acre guarantee basis |
| x .60 | Base price per pound |
| $312 | Minimum guarantee per acre |

If harvest price is $.50 per pound, then the harvest guarantee would be $260 (520 pounds per acre X $.50 = $260 per acre)

| | |
|---|---|
| $312 | Final guarantee per acre (greater of minimum or harvest guarantee) |
| – 100 | Calculated revenue (200 pounds per acre produced X $.50 harvest price) |
| 212 | Indemnity per acre |
| – 9 | Approximate cost per acre |
| **$203** | **Net indemnity per acre** |

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