Subcommittee on General Farm Commodities and Risk Management

Issues from 2003 public hearings
Risk Management Agency

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1. Multi-year losses – declining coverage and increasing cost

The most frequent and consistent concern heard from producers.

RMA Response:

RMA is somewhat limited by the Federal Crop Insurance Act (Act) in its ability to address

the issue of declining yields. The Act mandates that a yield for a crop be based on a producer's APH yield for that crop to determine the amount of the insurance guarantee.

RMA has implemented yield adjustments as required by ARPA that may be elected by insureds. Yield adjustments allow an insured to substitute 60 percent of the applicable Transitional Yield (T-Yield) for actual yields that are less than 60 percent of the T-Yield. Yield substitutions may increase effective coverage levels, but may also lead to over-insurance and be detrimental to the actuarial soundness of the program. Additionally, the current yield substitution may not treat producers in an equitable manner, as it tends to assist those producers whose average yield is near or lower than the T-Yield while not providing any or effective relief for those producers with yields that tend to be above the T-Yield.

Alternative Methods for Mitigating Declines in Approved Yields Due to Successive Years of Low Yields - In March 2004, RMA released a Statement of Objectives to develop new or revised methods for mitigating declines in an insured's approved yield following successive years of low yield. RMA's goal is to obtain proposals for: (1) research and development of new and innovative approaches to mitigating declines in yield guarantees following successive years of low yield, or provide improvements to existing procedures; and/or (2) research and development of new and innovative procedures for determination of approved APH yields. In May, RMA held a pre-proposal conference, featuring Chairman Moran as our kick-off speaker, to assist interested parties to better understand RMA's objectives in soliciting proposals to develop new or revised methods for mitigating declines in an insured's approved yields. Contract Proposals were due June 30, 2004. RMA formed a TET to begin contract proposal evaluations during the week of July 12.

Through this approach, RMA will seek proposals for new or modified approaches to establishing approved APH yields that are less subject to decreases during successive years of low yields as compared to current procedures; and that are equitable across policy holders with differing average yields; and broadly applicable to all crops and regions; affordable to policy holders; feasible and cost-effective for RMA and reinsured companies; and is actuarially sound.

2. Approval of expansion of Adjusted Gross Revenue (AGR)/AGR-Lite

In August, the FCIC Board of Directors (Board) expanded AGR-Lite to additional counties and states. More states have requested these programs.

RMA Response:

AGR-Lite is based on the AGR product. It uses the same rates/rating methodology.

AGR is a pilot program developed and administered by RMA. The FCIC Board concluded last summer that further expansion of AGR should not be considered unless the pilot evaluation that will be completed by mid 2005 concludes the program is performing satisfactorily.

RMA has recently awarded a contract for an independent evaluation of AGR. The evaluation is an in-depth review of the program's performance during the pilot phase, including producer's acceptance, actuarial and underwriting performance, etc.

The AGR evaluation will assist in determining whether AGR is a viable product for the future, should be modified or can continue on a permanent basis. AGR is available in 216 counties and 14 independent cities in 18 states. The evaluation results should be finalized mid-2005.

Three years of experience is typically required for the evaluation of pilot programs. The AGR evaluation will include experience from the 2001-2003 crop years, and part of 2004.

An average of approximately four commodities are insured per AGR/AGR-Lite insurance policy. Extensive actuarial and underwriting work, to identify all commodities grown in the area and to quantify premium rates for these commodities, is performed when setting up the AGR or AGR-Lite plan of insurance in a county. RMA has issued a contract to research alternative and simpler methods of setting up the AGR/AGR-Lite actuarial and underwriting structures in new areas.

AGR Insurance Sales for 2002/2004

Year	#Policies	Liability	Premium	Indemnity
2002	748	$244,797,134	$8,966,153	$10,831,181
2003	942	$318,849,592	$12,150,804	$3,754,298*
2004**	827	$302,325,672	$12,851,440	*

*Indemnity either reported to date but not complete or not available until fall.
**Data may not be complete at this time.

AGR-Lite is a plan of insurance approved under section 508(h) of the FCIC and owned by the Pennsylvania Department of Agriculture (PDA). It was first approved for the 2003 crop year in Pennsylvania. On August 1, 2003, the FCIC Board approved expansion of AGR-Lite to 11 northeast states for the 2004 crop year. On May 6, 2004, the Board approved AGR-Lite expansion for the 2005 crop year into Alaska, Idaho, North Carolina, Oregon and Washington, provided that actuarially appropriate premium rates, as approved by the Manager of FCIC, are provided by the Pennsylvania Department of Agriculture, Washington State University Extension Western Center for Risk Management Education and the North Carolina Department of Agriculture.

AGR-Lite Insurance Sales for 2003/2004

Year	#Policies	Liability	Premium	Indemnity
2003	73	$2,667,218	$130,753	*
2004**	88	$3,286,326	$175,820	*

*Indemnity either reported to date but not complete or not available until fall.
**Data may not be complete at this time.

Since the PDA currently owns AGR-Lite any expansion requests would need to be coordinated through them and if no AGR rates are available in an area slated for expansion, actuarial work must also be performed by the submitter with premium rates developed and provided. Due to AGR-Lite

being based on AGR, the final recommendation and any changes recommended by the AGR evaluation will also likely pertain to AGR-Lite.

3. Authority to cover pest-related quarantines

An option for such coverage is needed even if it requires additional premium.

RMA Response:

A contract was awarded in September 2003, to develop a quarantine program for producers to mitigate losses arising from an inability to sell their particular agricultural commodity when that commodity is subject to a legally imposed quarantine.

The contract directed the development of an endorsement to the basic provisions for the following currently insured crops:

- Wheat in Arizona, California and Texas
- All citrus in Arizona, Texas and Florida
- Avocados in California and Florida

The contract also directed the development of a stand-alone quarantine insurance policy for quarantines due to multiple perils covering the following crops and states:

- Eleven counties in California for the quarantine pilot program: Fresno, Kern, Imperial, Los Angeles, Orange, Riverside, San Bernardino, San Diego, Santa Barbara, Tulare, and Ventura, for multiple disease and insect perils for all insured and non-insured fruits, vegetables and other specialty crops, unless data collected during the development process indicates that the crop should not be covered.

- Quarantine coverage is being developed as an endorsement to the basic policy for San Luis Obispo and all other California counties not named above. RMA is aware of the concern for quarantine coverage for San Luis Obispo and may consider San Luis Obispo as an additional county for the stand-alone quarantine policy when it goes forward to the FCIC Board.

- The target date to send this proposal to the FCIC Board for consideration and expert review is fall 2005. The target year for implementation is crop year 2006.

4. Inadequate time between release of product information and sales closing date

A witness at the July hearing requested a minimum of four months to review policy changes and new material, prior to the sales closing date for that crop policy.

How can RMA/FCIC better manage the process to ensure adequate time is provided to industry?

RMA Response:

RMA has little flexibility in changing sales closing dates, especially for spring planted crops because section 508 (f) (2) (B) of the FICA statutorily set sales closing dates for spring crops that are 30 days earlier than they were for the 1994 crop year. For example, the sales closing dates for corn range from January 31 (south Texas) to March 15 (Midwest and Northern States). Sales closing dates are established early enough in the crop year to minimize adverse selection to the program.

RMA does file all actuarial material by the contract change date which generally should give adequate time for sales (for example for Spring seeded crops with Sales Closing Dates ranging from January 31 to March 15, the actuarial filing is generally issued in October of the previous year (e.g. October 2004 for the 2005 crop year sales). For fall seeded crops with a September 30, Sales Closing Date the actuarial filing is generally released in May, well in advance of the June 30, Contract Change Date.

RMA notes that one of the concerns raised to the Subcommittee regarding the sales closing date was with respect to the nursery crop insurance program. RMA plans to propose changes to the nursery crop insurance program including a change that may help alleviate this concern.

5. Streamline approval process for private product submission

Testimony from the July and October hearings reflects frustration that the FCIC Board has not approved more expansion of specialty crop products. The four page checklist which must accompany 508(h) submissions is viewed as particularly burdensome and a hindrance to private sector product development.

RMA Response:

RMA developed an interim rule (subpart V) for submitting private products under section 508(h) of the FCIA. The regulation outlines the contents that must be contained in a private product submission to ensure that submitted products are complete and of sufficient quality for expert review. This also helps in expediting the review process.

It is important to note that the 508(h) process is a process defined by legislation designed to allow a private entity to create an actual insurance product that will be implemented and sold if it is approved. Therefore, the submission is not just a concept, but also a fully developed product capable of being implemented. RMA does not view these requirements as a hindrance but rather as appropriate regulations to ensure that the integrity of submissions and to provide submitters with a defined listing to assure them the greatest chance of success.

All new product 508(h) submissions go through an external and internal review process. Review by five external reviewers (required by the FCIA) is contracted out and involves substantial costs. In order to enable a meaningful review, it is imperative that each submission contains all of the

components pertaining to underwriting, actuarial soundness, and marketability. Additionally, all components must be provided to allow the submission to be implemented if it is approved. Without all of the components listed on the checklist, key issues with the potential for negatively affecting the best interests of producers, actuarial soundness and markets/prices could be missed in the review process and, for those submissions that are approved, timely implementation would not be possible if all components were not included.

6. Establish a minimum loss standard

When the cost of harvesting a loss-affected field exceeds the appraised salvage value (the cost of harvest is more than the remaining crop is worth), that field should be given an effective appraisal of zero, indicating a 100 percent loss.

RMA Response:

A crop insurance policy does not require producers to harvest a crop when, in the producer's opinion it would not be economically feasible to do so. The producer, however, does retain the right to harvest the crop if they wish.

RMA has been asked to implement a "de-minimis yield" in the past. RMA has declined because the risk associated with implementing such a procedure would require an increase in rates. Producers with minimal yields can ask for a field appraisal of their crops in order to determine how much production will apply to their insurance guarantee. If the amount of appraised production is less than the cost of harvesting, most producers will accept the appraisal and receive a release on their crop. Under the insurance contract, producers who accept a field appraisal agree to put the fields to another use without harvesting. If the producer subsequently decides to harvest after they have agreed to destroy the crop, they must notify their insurance company and report the production.

The production to count for claim purposes is used for subsequent year APH calculations. A de-minimis yield that would be an effective appraisal of zero would also have to be considered in how RMA would treat such for future year APH calculations.

7. Additional producer education

At all hearings, a desire for more education and information about insurance options was expressed. Suggestions included more information available on the RMA website in an easy-to-locate format, additional agent training and agency outreach sessions directly targeted to producers.

How are funds being used to facilitate producer education?

RMA Response:

One of RMA's strategic goals is to ensure that its customers are aware of the numerous risk management solutions available. This goal is supported by sections 524(a)(2) and 522(d)(3)(F) of the FCIA. Section 524(a)(2) authorizes funding for the establishment of crop insurance education and information programs in States that have historically been underserved by the Federal crop insurance program. Fifteen states were designated as "underserved." They are Connecticut, Delaware, Maine, Maryland, Massachusetts, Nevada, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, Utah, Vermont, West Virginia and Wyoming (collectively referred to as "Targeted States"). The goal of this program is to ensure that farmers and ranchers in the Targeted States are sufficiently informed of, and therefore can take full advantage of existing and emerging crop insurance products. Section 522(d)(3)(F) authorizes FCIC funding for risk management training and informational efforts for agricultural producers through the formation of partnerships with public and private organizations. With respect to such partnerships, priority is to be given to reaching producers of certain commodities, referred to as Priority Commodities, which include agricultural commodities covered by 7 U.S.C. 7333, specialty crops, and underserved commodities.

To ensure that we are meeting the requirements of the FCIC and that goals are being met, RMA has implemented and oversees two agricultural producer education programs.

1. The commodity partnerships for our risk management education partnership agreement program. The purpose of this program is to deliver training and information in managing production, marketing, and financial risk to U.S. agricultural producers of specialty crops and underserved commodities.

2. The crop insurance education in targeted states cooperative agreement program. The purpose of this program is to assist RMA in delivering crop insurance training and

information to agricultural producers in fifteen states that have been underserved with respect to crop insurance.

State governments, universities, for profit and nonprofit organizations are eligible to apply for funding. Applications are submitted in response to a request for applications notice, which is published annually in the Federal Register and posted on the RMA website. A limited number of one-year cooperative agreements and partnership agreements are awarded to applicants based on the recommendations of a review panel. Both programs have similarities, but also key differences. The differences stem from important features of each program's authorizing legislation.

8. Review of rating structure

Witnesses at all hearings from July to October raised concerns about different areas of the country paying the same rate, and/or producers in the same area paying different rates for similar products and coverage. Data mining information could simplify rating, monitor and reinforce good farming

practices. Individual experience rating was suggested, providing a discount for a "no loss" producer similar to a "good driver discount" in auto insurance.

RMA Response:

Premium rates are set at the county level based on experience data from the county. Losses incurred in one state do not increase the premium rate paid by insureds in other states. RMA does not determine premium rates by utilizing a "national catastrophic rate load", a common practice utilized by some lines of property casualty insurance programs (e.g. auto, fire, natural disaster), since this would result in insured's in areas without significant losses being forced to pay higher premium rates as a result of losses incurred elsewhere in the nation. For most crops, RMA adjusts each insured's premium commensurate with their individual APH yield.

Some pilot programs may have similar rates over wider areas due to limited data availability. In this case, unique county level rates emerge over time as experience data are accumulated and incorporated.

RMA reviews and updates rates at least every five years, but in most cases every two or three years, to ensure that the most recent insurance experience is included. Each year, RMA reviews and analyzes crop and state level loss experience data to determine when updates are necessary. RMA continues to enhance its rating process by focusing on crops and areas with the highest loss ratios in an effort to reinforce actuarial soundness.

RMA has contracted for a study to determine the best mechanism to offer a good experience discount for those who remain in the program and who have generally good insurance experience relative to producers of the same commodity in the same area. The

feasibility study mandated by ARPA has been completed and the current contract will propose the best method for development and implementation by RMA.

9. Accuracy of T-yields

Multiple witnesses believe there is a discrepancy between the T-yields assigned and actual National Agriculture Statistics Service (NASS) yields. By definition, the T-yield is based on the NASS 10-year county average. RMA should review T-yields and make adjustments if needed.

RMA Response:

In general, T-yields are based on the NASS 10-year county average when representative NASS data are available. In cases where NASS data are deficient, Regional Offices recommend T-yields based on additional information (e.g., RMA insured experience) and unique knowledge of the crop or growing area due to Regional Office expertise. RMA reviews and updates T-Yields at least every five years, but in most cases every two or three years, at the same time rates are updated to ensure that the most recent yield information is included.

It should be noted that apparent discrepancies can be the result of a time lag in data availability. NASS county yields are calculated late enough and insurance documents must be published far enough in advance that the base of data used to compute T-yields can lag behind two years. NASS completes end-of-year county estimate surveys (November and December of each year) and releases county estimates to RMA the following spring. For example, 2003 county estimates were released in spring 2004 in time for inclusion in the 2005 crop year filing.

RMA has contracted a study to determine the optimal method for establishing T-yields. In any case, it is in RMA's best interest to ensure that current T-yields are accurate and appropriate. To that end, RMA is always willing to review specific examples of questionable T-yields and, if necessary and appropriate, take immediate corrective action.

10. Review prevented planting provisions

Several program crop producers expressed concerns about prevented planting, particularly for irrigated production. It was suggested that the requirement of 20 percent or 20 acres be prevented from planting to qualify, be lowered to a threshold of 5 percent or five acres.

RMA Response:

The 20 percent/20-acre limitation was added to the prevented planting provisions because past RMA reviews revealed that prevented planting payments were being made for small

areas within a unit that historically were not planted for various reasons. It was felt that it would be better for the producer to absorb a small loss in order to keep rates at a minimum.

Lowering the 20-acre or 20 percent requirement to a lesser amount of acres or percentage of acres was discussed during various prevented planting forums held in 2003 (forums were composed of representatives from companies, grower groups, RMA, Cooperative State Research, Education and Extension Service and four other crop insurance interest groups). Besides the group discussing changes that would result in coverage that is more meaningful for producers, there were also discussions of ways to curb the abuse of the prevented planting provisions that had been occurring. After much discussion changing the current 20 acre or 20 percent threshold was determined to not be in the best interest of the program, because prevented planting payments on very small acreage amounts could lead to yearly payments on very small areas such as pot holes that routinely are not planted, could create less incentive for producers to try and plant and would also result in an increased rate for prevented planting coverage and administrative costs to the program.

RMA will be proposing a number of changes intended to improve prevented planting provisions based on the prevented planting workgroup's recommendations. The focus of these changes will be to provide simplification, increase certainty for the insured producers and insurance providers, provide meaningful coverage in the event of prevented planting, maintain actuarial soundness and reduce program abuse. These changes are currently in the regulatory process and a proposed rule for public comment will be issued with the expectation of implementation for the 2006 crop year.

11. Streamlining revenue products

Since the policies are nearly duplicative, it was recommended that the products be combined for efficiency and easier administration.

RMA Response:

RMA is currently undertaking an initiative to combine the base APH product with the Crop Revenue Coverage (CRC), Revenue Assurance (RA), and IP policies. RMA also plans to combine the GRP with Income Protection (GRIP) and GRIP-HRO products into a single policy in the future. The FCIC Board has also taken a proactive approach when reviewing new insurance products to avoid creating redundancy with existing insurance products. The combinations of these products will reduce confusion, reduce paper-work, eliminate multiple rating structures and will afford producers the choice of electing just yield protection or both yield and price protection. RMA is making every effort to have the combination of APH, CRC, RA and IP completed for the 2006 crop year and plans to follow with the GRP, GRIP and GRIP-HRO combination for the 2007 crop year.

12. Review of RMA quality loss adjustment procedures for program crops

Crop insurance evaluates quality losses differently than local elevators. Ideally, crop insurance should have the same standards and reflect the exact quality discounts assessed at the elevator.

RMA Response:

Section 107 of ARPA required a review of current quality adjustment loss procedures in order to develop procedures that more accurately reflect local quality discounts, stating; "The Corporation shall contract with a qualified person to review the quality loss adjustment procedures of the Corporation so that the procedures more accurately reflect local quality discounts that are applied to agricultural commodities insured under this title. Based on the review, the Corporation shall make adjustments in the procedures, taking into consideration the actuarial soundness of the adjustment and the prevention of fraud, waste, and abuse."

ARPA also stipulated that for cotton; "…the Corporation shall offer producers the option of purchasing quality loss adjustment coverage on a basis that is smaller than a unit …"

A contract was awarded to Milliman USA, Inc. to do this research. The final report was completed on July 9, 2002.

Study Recommendations - Grain Quality Adjustment (QA):

The study recommended developing regional discount schedules to be maintained by RMA's Regional Offices. This approach would be national in scope and uniform for all crops. However, Milliman grants that this would result in higher maintenance costs. The study also recommends the

use of Olympic averages when the discounts fall off the charts. Local transactions may deviate substantially from recommended discounts. In such cases, quality discounts would be based on an Olympic Average (discard the high and low bid) of five separate local buying points. Thus, either the insured producer or loss adjuster would be required to travel to, wait in line at and receive bids from five different grain elevators. While this may better prevent fraud, waste and abuse and be reflective of the local market price, RMA does not believe this is in the best interests of the producer, grain industry, crop insurance industry or the taxpayers as it would increase administrative costs, could be subject to third party influences if the grain elevators provided lower prices if they knew the bids were for crop insurance purposes and therefore in the end would not be fully reflective of the true local market.

Study Recommendation - Cotton Quality Adjustment (QA) on a Basis Smaller Than a Unit:

The study's risk analysis measured the relative frequency and severity differential between cotton quality loss adjustment on a unit basis and quality loss adjustment on a per-bale basis. Cotton is generally marketed on a per-bale basis. The primary difference between quality loss adjustment on a unit basis and quality loss adjustment on a per-bale basis is that under the per-bale coverage, quality deficiencies are paid for each bale regardless of whether there is a yield loss. The report states this alternate coverage would result in an approximate 10 percent increase in loss costs. The percentage difference is the highest at the lowest coverage level.

The report did not specifically recommend for or against implementing cotton quality adjustment on a per-bale basis, but "strongly recommend RMA implement any coverage changes on a pilot basis, monitor results, and make adjustments accordingly."

RMA has since been contacted by the National Cotton Council and has been having ongoing discussions with them to seek alternatives to improve quality adjustment for cotton. The National Cotton Council did not recommend implementing the study results but rather preferred to explore options and then discuss them with RMA. That process is ongoing.

Industry Comments:

On August 8, 2003, RMA posted the report on its website and requested that producers, producer groups, universities, extension offices and private insurance companies review the study and offer ideas and recommendations for improving the QA procedure. Any recommendations must result in a QA process that is:

1. Reflective of local markets.
2. Easy to administer within current staffing levels.
3. Not subjected to price manipulation, fraud, waste and abuse.

The review of the quality adjustment loss procedure required by ARPA has been completed. After review of the studies recommendations by RMA, the insurance industry and grower associations,

there is no uniform support for changing the current procedure to the study's recommendations. The comments received offered no clear solutions to the concerns raised over the current quality adjustment loss procedure. Based on the study results and feedback received, RMA will continue to use and update the current quality loss provisions.

RMA uses a ten-year average of the FSA loan discounts as compared to the national average loan rate to determine current quality adjustment factors. Due to contract change

dates and actuarial filing schedules there is a two-year lag in the data RMA uses. For example, RMA uses the 2003 FSA loan discounts for the 2005 crop year.

13. Development of GRP coverage

More emphasis on GRP delivery was suggested. Hail coverage should also be added.

RMA Response:

Without more specific information regarding what is meant by GRP delivery, RMA is not able to fully assess the request and its potential. An insurance company has submitted a product that combines GRP with the Income Protection Program to also provide area based revenue protection, and at its October 29, 2003 Board meeting the FCIC Board approved a Harvest Revenue Option feature for the GRIP policy effective for the 2004 crop year.

GRP and GRIP policies are county based and therefore can cover losses due to hail, but often times a hailstorm will not affect the entire county or significantly reduce the county yield. In this case, individual farms that suffer hail losses may not be paid for the loss under a county-based program. In high hail-risk areas, agents typically sell private hail (individual) coverage to supplement the GRP or GRIP coverage. It would seem inappropriate for RMA to add individual hail coverage to the area-based GRP and GRIP products, in light of the broad, general availability of private hail.

The GRIP plan of insurance was a privately developed product submitted to the FCIC Board under Section 508(h) of the Federal Crop Insurance Act. The developers of this product submitted the GRIP plan of insurance for approval for corn and soybeans only. There are other crops insured under GRP, including grain sorghum; however, they were not submitted for Board approval by the private developer.

The developer of the GRIP plan of insurance has since turned the product over to RMA beginning with the 2004 crop year. RMA has only recently received information that there is an interest in expanding the GRIP plan of insurance to other crops such as cotton, grain sorghum and wheat. RMA is assessing the viability of developing GRIP provisions for these crops, and if approved, could be made available pending approval by the FCIC Board. RMA is assessing whether given current resources and timing it can provide GRIP for grain sorghum as early as the 2005 crop year if approved by the Board

RMA recently met with the National Grain Sorghum Producers Association to discuss expansion of the GRP and GRIP plans of insurance for grain sorghum.

Currently, grain sorghum coverage is available under the APH yield, CRC, GRP and IP plans of insurance. However, grain sorghum is not available under GRIP, RA and a pilot Indexed Income Protection (IIP) plan of insurance.

RMA is currently in the process of combining the APH, CRC, RA and IP plans of insurance into a single policy to eliminate redundancies and simplify the crop insurance program. When combined, it is anticipated that grain sorghum producers will have the same coverage choices as corn and soybean producers; however, this change will not be affective until at least the 2006 crop year.

The area plans of insurance (GRP and GRIP) accounted for 2.8 percent ($1.14 Billion) of the total amount of crop insurance in force ($40.6 billion) for the 2003 crop year. Area plans covered approximately 5.7 percent of all insured acreage.

14. Optional Units for Continuous Crop and Summer Fallow

Optional units can be established for irrigated vs. non-irrigated. Why can't producers establish optional units for continuous crop and summer fallow? And, how can this be changed? Is this viable, even if the premium rises?

RMA Response:

Optional units are generally established by crop within a section. For some crops, the insurance policy allows additional unit division. For example, irrigated and non-irrigated wheat in the same section can qualify for separate optional units provided separate records of acreage and production are provided for each practice. Irrigated/non-irrigated unit division is provided based on the significant differences in the production perils between these two practices. In addition, some policies also allow unit division based on different crop types. For example, non-irrigated durum and spring wheat in the same section can qualify for separate optional units; however, they are very different wheat types with different quality standards and end uses. Where provided for in the actuarial documents, separate units are also provided for initially planted winter wheat and initially planted spring wheat. Again, this method of unit division is based on significant differences in production perils, quality standards, etc. and is not based on a difference of whether land had laid idle (summer fallowed) or had been continuously cropped.

In addition to the above, when establishing the basis for providing additional breakdown for optional units, consideration must also be given to program integrity and administrative burden. That is, will there be an increased opportunity for shifting production to create or increase losses, increased moral hazard and ultimately resulting in increased rates. Conversely, would providing optional units put additional burden on insured producers and the delivery system for maintaining separate production reporting and record keeping beyond what would traditionally be done given the harvesting and marketing of the crop.

The wheat crop insurance policy does not allow for optional unit division for summer fallow acreage and continuous cropping acreage. The same is true for other crop insurance policies. For example, corn planted on land that had been fallow the previous year and corn

planted on acreage that was in a continuous corn/soybean rotation would not qualify for separate units. In most cases, provided the same crop type is planted, crops grown under both practices would be planted together, harvested together, marketed together, etc. In contrast, different crop types such as durum wheat and spring wheat would not be planted, harvested or marketed together.

The issue of providing additional optional units has been an issue considered by the FCIC Board on different occasions, and the Board has conveyed a sense to RMA that it should not consider providing additional optional units but rather should focus on programs or strategies with fewer optional units.

15. Crop-Specific Issues

A. Apple: Status of Revised Apple Policy

Comments from the July and October hearings:

- Cover all common weather-related damage
- Damaged apples, juice grade or better, are not covered – need option to purchase coverage for a higher quality value
- Expand policy to cover late season varieties
- Base production averages for coverage calculation on county, rather than state, data.
- Allow optional units for non-contiguous units separated by clearly discernible boundaries (e.g., public right-of-ways or roads).

RMA Response:

The proposed rule was published in the Federal Register on March 29. The public comment period ended on April 28, 2004, and RMA is responding to the comments received in the final rule that is to be effective for the 2005 crop year. The contract change date is August 31, 2004, for the 2005 crop year. RMA is working to have the final rule published in time for implementation for the 2005 crop year. RMA regrets that it cannot comment on specific changes to be made in the final rule due to the fact that the regulatory process has not been completed, but we are seeking to be responsive to the comments received consistent with program integrity, actuarial soundness and market responsiveness.

B. Policy Change for Citrus

Citrus canker coverage is not part of the current citrus fruit policy.

RMA Response:

A draft proposed rule that will seek to address this issue is in RMA's internal concurrence process. It is unlikely the final rule can be completed and implemented prior to the 2006 actuarial filing date (12/31/04). RMA plans to have the proposed rule published in the Federal Register by September 15, 2004. Until the rule is finalized, RMA cannot discuss its details.

Under the current Pilot Florida Citrus Fruit Tree crop provisions, Asiatic Citrus Canker (ACC) coverage is an insured cause of loss. A quarantine zone is established in a county when there is a positive find by either the Florida Department of Agriculture and Consumer Services Division of Plant Industry (DPI) or the U.S. Department of Agriculture's Animal and Plant Health Inspection Service. New applicants for insurance and carryover insured's who did not have ACC coverage the previous year must obtain an acceptable ACC Underwriting Certification from DPI to be eligible for ACC coverage. Insured's have ACC coverage once they obtain a "clean" certificate stating that ACC is not present in their groves. Losses are calculated on a "first tree" basis (spot loss) without the standard percent of damage requirement. When DPI determines there is a positive find, those trees and the trees within a specific radius (up to a 1900 foot radius at this time) are destroyed and an indemnity can be determined. Provided an insured does not request a higher coverage level or add acreage, they maintain their ACC coverage on the remaining trees for subsequent crop years.

C. Policy Changes for Nursery Stock

Comments from the July 10, hearing:

- Use growers' wholesale price list as the basis for coverage valuation, eliminating use of the current FCIC-printed wholesale price for valuation purposes.
- Provide coverage for plants grown in containers smaller than three inches in diameter.
- Separate policies for field-grown and containerized plants.
- Year-round sales, subject to a 30-day waiting period to begin coverage.

RMA Response:
A proposed rule is in the final stages of review and should be published in the Federal Register in the near future. The final rule is targeted to be effective for the 2006 or 2007 crop year depending on the timing of Departmental clearance and the number of issues raised during the public comment period.

D. Expansion of Georgia Blueberry Pilot Program

Blueberries are produced in 12 counties, but coverage is available only in three pilot counties. (7/10 hearing)

RMA Response:

The FCIC Board approved the conversion from pilot program to permanent status effective

beginning with the 2005 crop year   Due to the length of the regulatory process, the FCIC Board approved expansion of the blueberry pilot program for the 2004 crop year, to

selected counties in Michigan, Oregon and Washington. For the 2005 crop year, the program is available in selected counties in 11 States.

The proposed rule for the Blueberry Crop Provisions was published on July 30, 2003. Responses to public comments regarding the proposed rule were incorporated into the final rule. To be effective for the 2005 crop year the final rule must be published in the Federal Register by the August 31, 2004, contract change date.

E. Price Election for Georgia Peaches

Review use of localized pricing instead of NASS.

RMA Response:

RMA has held numerous discussions on this issue, which also involves how South Carolina peach price elections compare to Georgia price elections. In particular, discussions with major South Carolina peach growers and Senator Graham and his staff have occurred.

RMA peach price elections are established based on the five-year average of State NASS peach prices, less post-production costs, to arrive at the on-tree price that producers can expect to receive. Although not always the case, in recent years, these NASS data supported higher price elections in Georgia than South Carolina.

South Carolina producers argue they sell into the same market as many Georgia producers, yet current Georgia peach price elections remain slightly higher than South Carolina peach price elections. NASS data continue to support the slightly higher Georgia price elections. The NASS data for both Georgia and South Carolina are based on statistically defensible sampling procedures and survey response rates, and thus provide a compelling argument that the current price differential between Georgia and South Carolina is appropriate.

RMA is currently unable to develop defensible price elections at levels other than what NASS data provide for. Certain Agricultural Marketing Service data are available at specified buying points below the State level, but these data are 'spot market' price quotes and do not include volume or quality information. The problem of a lack of independently verifiable price and volume data at the local level is unlikely to be resolved.

F. Written Agreements for Vegetables in Georgia

Regional Offices differ in their interpretation of the guidelines for written agreements, used to insure crops in counties where an insurance program is not available. RMA should work with all Regional Offices to clarify more uniform guidelines.

RMA Response:

Underwriting procedures used to administer written agreements are contained in the Written Agreement Handbook and intended to provide uniform standards used by the Regional Offices to process written agreement requests.

The Written Agreement Handbook is currently under consideration and review by the FCIC Board and a panel of six expert reviewers.

Depending on the outcome of this review and directions from the FCIC Board, final written agreement procedures will be issued.

In developing these final procedures, RMA will seek to clarify the conditions under which written agreements for crops in counties without programs, including vegetables, are considered. However, it should be recognized that growing practices and conditions, and thus, conditions of insurability might vary from one state or county to another. As a result, RMA, through its Regional Offices, must maintain the latitude to evaluate each request and determine if a sound insurance offer through a written agreement can be made.

G. Quality Issues for Malting Barley

At the Minnesota field hearing, concern was expressed about RMA using a different standard than the industry to determine quality loss due to pre-harvest sprouting. There is also a discrepancy between RMA's protein percentage and the maximum allowed by industry in accordance with the Grain Inspection, Packers and Stockyards Administration (GIPSA) standards.

RMA Response:

RMA is aware of recent identified discrepancies between RMA's quality standards and the industry standards. Sprout damage is covered in the policy as insurable (1 percent). The recent directive by GIPSA establishes "injured-by-sprout" (pre-harvest sprouting) as a new official criteria, that is intended to provide additional information only and has no bearing on the assigned grade. Sprout Damage (a grading factor) is a visual test of the kernel that identifies obvious sprout damage. Injury-by-sprout identifies pre-sprouting (before it breaks the covering of the seed). A legal review determined that placing injury-by-sprout in the crop insurance policy, as a quality standard must be done through publication in the Federal Register as a proposed rule. The Injury-by-sprout addition may require a rate review, because current rates do not reflect this industry grading change. Protein levels will be reviewed and updated to reflect industry standards and RMA may propose adding acceptable Mycotoxin (Vomitoxin, etc) levels to the policy.

RMA is also concerned about recent reports of questionable practice of grain companies buying malting barley – as feed barley – then reselling as malting barley. Another concern is brewers providing growing contracts to producers that do not have a consistent history of growing malting barley.

RMA has a very good working relationship with the National Barley Growers Association and has recently has attended several meetings to discuss proposed changes to the Barley insurance program. Most recently in June of 2004, an RMA representative attended the National Barley Growers annual meeting in Washington, D.C. to discuss proposed changes.

The contract change date for malting barley is June 30. Any changes will be proposed in the APH, CRC, RA, IP combination initiative. The earliest any changes can be made is for the 2006 crop year.

H. Cotton Issues

Four items were raised in September and December:

1. A credible quality loss provision should be implemented on a bale-by-bale basis with a reasonable threshold of loss.
2. Non-emerged, drought-affected dryland cottons should be allowed to be released in a timely manner, and appraisal dates should be clear and consistent prior to the time by which insurance decisions must be made.
3. Boll count appraisal methods currently used by RMA are outdated and unscientific. Producers have submitted a recommendation for a revised method, but no revision has been implemented.
4. Producers in the Northern Texas Panhandle counties should be eligible to purchase cotton coverage.

RMA Response:

1. RMA quality adjustment is currently performed on a bale-by-bale basis. Each bale's quantity may be adjusted due to the quality adjustment issues affecting that bale. For example, a 600-pound bale of poor quality cotton may equate to 300 pounds of good cotton. Cotton bales are aggregated on a unit basis – the same basis on which the insurance is purchased – and if the adjusted quantity is less than the guarantee, an indemnity is due. This allows the producer to purchase the amount of insurance, which best fits their needs without adversely affecting rates or other producers. RMA contracted a study on the specific issue of offering cotton quality adjustment on a bale-by-bale basis that is not aggregated to the unit level.

   Recommendations from Contracted Study (An Independent Actuarial Review of Quality Adjustment 5.6.3 Section 107 of ARPA) Regarding Cotton Quality Adjustment (QA) on a Basis Smaller Than a Unit:

   The study's risk analysis measured the relative frequency and severity differential

   between cotton quality loss adjustment on a unit basis and quality loss adjustment on a per-bale basis. Cotton is generally marketed on a per-bale basis. The primary difference between quality loss adjustment on a unit basis and quality loss adjustment on a per-bale basis is that under the per-bale coverage, quality deficiencies are paid for each bale regardless of whether there is a yield loss. The report states this alternate coverage would result in an approximate 10 percent increase in loss costs. The percentage difference is the highest at the lowest coverage level.

The report did not specifically recommend for or against implementing cotton quality adjustment on a per-bale basis, but "strongly recommend RMA implement any coverage changes on a pilot basis, monitor results, and make adjustments accordingly."

RMA has since been contacted by the National Cotton Council and has been having ongoing discussions with them to seek alternatives to improve quality adjustment for cotton. The National Cotton Council did not recommend implementing the study results but rather preferred to explore options and then discuss them with RMA. This process is ongoing.

2 RMA has taken considerable efforts in an attempt to address this issue and find a viable solution without adversely affecting the crop insurance program regarding the eight-day deferral period. RMA used information from the Texas Cooperative Extension and Texas A&M to confirm it takes an average of 5-13 days (RMA uses 8 days) for seeds to emerge after planting. Using data from the same sources, RMA has also confirmed there are sufficient heat units in an average year to produce a crop planted before the final planting date or during the late planting period. While RMA was unable to accommodate a change for the 2004 crop year, RMA will continue to work with the National Cotton Council, the Plains Cotton Growers and other interested groups to try to find a long term solution that meets the needs of producers without creating opportunity for fraud, waste and abuse. Some considerations may be adjusting the final planting date or shortening the late planting period. The final planting dates and the late planting periods are on the Special Provision of Insurance that are provided to insureds as well as posted on the Internet.

3 The current boll count appraisal method was based on a dated study. Producers submitted a change recommendation based upon a very limited area (19 counties) for one year. RMA insures cotton from California to Georgia and from Texas to Virginia. RMA has prepared a contract to study the appraisal methods for mature cotton that will span multiple years in all major cotton growing areas, using prevailing farming practices, and the major cotton varieties. RMA will announce and release the study's results once the final contracted deliverable is accepted.

4 Cotton is insurable in several Northern Texas Panhandle counties such as Hartley, Moore, and Sherman. Additional counties are being proposed for 2005. In addition, if a producer in a county without a cotton program can prove harvested production for three years, they may qualify for a written agreement.

I. Sorghum Issues

Equalize the CRC price election to reflect current market price relationship with corn

RMA Response:

RMA establishes price elections for the APH plan of insurance, including those for corn and grain sorghum, relying heavily on projections from USDA's World Agricultural Supply and Demand Estimates (WASDE). APH price elections utilize the legislated commodity loan rate as the price floor for the crop. In recent years of low prices, the APH market price election has been established at the loan rate for corn and grain sorghum.

The CRC product is a market-based product. However, since grain sorghum is not traded on exchanges such as the Chicago Board of Trade, there is no futures market price discovery mechanism available. Thus, until the 2004 crop year, the base and harvest prices for CRC grain sorghum had been set at 95 percent of the CRC corn base and harvest price from the Chicago Board of Trade -- based on fundamental analysis of the historic market price relationship between corn and grain sorghum.

At the request of the National Grain Sorghum Producers Association (NGSPA), RMA revisited the CRC grain sorghum pricing methodology. As a result, on October 29, 2003, the FCIC Board approved a change in the formula used to determine the CRC grain sorghum price election to make it more reflective of the most recent expected market price relationship between corn and grain sorghum. The relationship is now based on the harvest year's USDA January estimate of corn and grain sorghum prices as determined by the World Board. This change reflects the best possible estimate, nearest the sales closing date, for what the relationship of corn and grain sorghum will be for the harvest year. This approach provides flexibility for grain sorghum to potentially be equal to, or greater or less than the corn price depending on the estimate of the potential market given USDA's rigorous analysis and price forecasts. RMA implemented this new methodology for the 2004 crop year, resulting in a 2004 CRC grain sorghum price set at 95.9 percent of corn.

NGSPA has asked that RMA make further changes to the calculation of the price percentage relationship between grain sorghum and corn. However, the pricing data currently used by USDA does not support such a change.

J. Coverage for Silage Sorghum

Insurance coverage is needed for sorghum silage, similar to the current policy for corn silage. The NGSPA requested that RMA provide insurance coverage for dual-purpose grain sorghum varieties that are grown for harvest as silage. Under the current grain sorghum insurance program, grain sorghum grown for silage purposes is not eligible for insurance.

RMA Response:

The FCIC Board voted on May 6, 2004, to approve a Pilot Program to provide crop insurance coverage for Sorghum Silage. This was developed through a development contract granted to Watts and Associates. Grain sorghum varieties grown for harvest as silage will be eligible for coverage under the new pilot program beginning in the 2005 crop year and continuing through the 2008 crop year for two counties in Colorado and 37 counties in Kansas. RMA will finalize the policy terms and conditions and anticipates release of such with the 2005 crop year actuarial filing for grain sorghum in early October 2004. The sales closing date will be March 15, 2005, for the 2005 crop year.

Features of the pilot program include:

1. The Silage Sorghum Endorsement will provide additional coverage than that currently provided under the Grain Sorghum crop insurance program.

2. Coverage for Silage Sorghum will be based on APH.

3. Coverage will be provided on irrigated and non-irrigated acreage.

4. The pilot program will be offered in selected counties in Kansas and Colorado. Counties in Texas were dropped due to the lack of data. The NGSPA was informed on this decision and agreed that due to the lack of data the pilot program cannot be offered in Texas at this time.

K. Status of Policy Changes for Sweet Potatoes

Several changes were recommended at the October 2, hearing. If changes cannot be made to improve the program so that market distortions do not occur, the program should be terminated.

RMA Response:

The Sweet Potato Pilot Insurance Program (SPP) was initiated in 1998 in the following states and counties: Alabama – Baldwin County; California – Merced County; Louisiana – Avoyelles, Morehouse and West Carroll Parishes; North Carolina – Columbus and Johnston Counties; and South Carolina – Horry County. These counties represented approximately 25 percent of total sweet potato acreage planted nationwide.

The SPP is an APH plan of insurance. According to data from NASS, there were approximately 97,000 acres of sweet potatoes planted in the U.S. in 2002. The leading production States are North Carolina, Louisiana, Mississippi, California, Texas, Alabama, South Carolina, New Jersey and Virginia.

A contracted evaluation of the sweet potato program has been finalized. The recommendations from the evaluation form the basis for the options presented for consideration. In general, the findings of the evaluation were:

- Excessively high loss ratios and frequencies of loss in most counties which were not fully explained by weather;
- In more than one state, the loss ratios and frequencies of loss were remarkably higher than those of other crops grown in the pilot counties;
- Net insured acres increased dramatically in some pilot program counties during the pilot period; and
- The validity of rates could not be verified.

Many of the recommendations could not be implemented in time for the 2004 crop year. Based on the contracted evaluation, the FCIC Board directed RMA to implement the following short-term changes to the program in order to continue the program:

1. Continue the program revisions made for the 2003 crop year, including the requirement that an insured producer must have grown sweet potatoes for commercial sale three out of the five previous years, and that acreage insured for the current year may not exceed 110 percent of the greatest number of acres grown in any one of the three previous crop years;
2. Evaluate and make appropriate rate changes in each county up to the maximum statutory amount of 20 percent, as necessary, based on program loss experience;
3. Limit the availability of insurance coverage to not more than the 60 percent coverage level;
4. Limit the availability of coverage to basic units only;
5. Institute a comprehensive field-monitoring program to focus on program delivery and implementation, including agent and loss adjuster performance, and to include producer compliance with rules and procedures; and
6. Strengthen yield determination and loss adjustment procedures, as practical, to improve consistency in determining production to count, and to strengthen requirements regarding the adjustment of un-harvested production appraisals.

For the 2005 crop year:

The Board also delegated to the FCIC Manager authority to develop a new sweet potato crop insurance program to be piloted in states and counties as approved by the FCIC Board. The Board indicated that if performance of the existing pilot program did not improve in

2004, and if a new program could not be developed for pilot testing beginning in 2005, the Board would consider termination of the existing pilot program for the 2005 crop year.

RMA awarded a contract to Watts and Associates to develop a replacement "Turnrow" (harvest) pilot insurance program for 2005 crop year implementation. The contract further provided for the development of an additional coverage component to add storage coverage, if feasible, for the 2006 crop year. The submission package for the “Turnrow” New Sweet Potato Pilot Program has been completed.

Features of the new SPP pilot program include:

1. Only sweet potatoes of the Beauregard variety, planted for harvesting for fresh market consumption, will be insurable. Sweet potatoes planted for processing will not be insurable due to the small acreage of such sweet potatoes;
2. The APH insurance plan will be the basis for determining the guarantee. The definition of yield will be the quantity of field-pack production that meets the requirements of U.S. No. 1 Grade with regard to size, as well as roots that would classify as U.S. No. 2 Grade based on physical characteristics, plus those roots heavier than 36 ounces (commonly called Jumbos). Appearance
3. and other quality attributes will not be considered;
4. Field-pack production will be measured per land acre;
5. Coverage will be available on irrigated and non-irrigated acreage;
6. Coverage levels from CAT through 75 percent will be available;

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7. Late planting and prevented planting coverage will not be offered, which is consistent with the current pilot program;
8. Only basic units will be insurable;
9. There will be different price elections for harvested and unharvested acreage;
10. FCI-35 maps will be developed for pilot program counties that identify lands poorly suited for production of sweet potatoes; and
10. New Pilot Parishes/Counties are proposed for the pilot program: The pilot program areas are within the states of Louisiana and North Carolina. The Louisiana parishes include Acadia, Avoyelles, Evangeline, Franklin, Morehouse, Richland, St. Landry and West Carroll. The North Carolina counties include Cumberland, Duplin, Nash, Edgecombe, Greene, Harnett, Johnston, Lenoir, Sampson, Wake, Wayne and Wilson.

On July 1, 2004, the FCIC Board voted to send the proposed New Sweet Potato Pilot Program to expert review. The Board revised the proposal to include Columbus County, North Carolina, and Horry County, South Carolina, as pilot counties in the proposed new pilot as well as the counties listed in item ten above. Pending expert review and Board approval, the new pilot program will be available for the 2005 crop year.

L. Canola Issues

At the Lubbock field hearing, two issues were raised:

- Written agreements for canola should be made available by allowing producers without three years of canola planting history to substitute their planting history of similar crops.
- Written agreements should not be denied for a crop due to "poor" history when it is determined that other major crops in that region have suffered similar losses and share poor planting histories during the same period of time.

RMA Response:

Written agreements are an underwriting tool used to extend coverage when insurance is not currently available as provided in Section 508(a)(4)(B) of the Act. This provision of the Act authorizes the use of written agreements if the producer has actuarially sound data relating to the production by the producer of the commodity and the data is acceptable to the Corporation; therefore, RMA is somewhat limited in authorizing written agreements to producers with very limited experience growing the crops. The Written Agreement Handbook provides the standards, criteria and instructions for processing of written agreements. The Written Agreement Handbook is currently under consideration and review by the FCIC Board and a panel of six Expert Reviewers. Depending on the outcome of this review and directions from the FCIC Board, final written agreement

procedures will be issued. The earliest date the Handbook would be available is the spring 2005 crop year.

Written Agreement procedures are provided for approving requests for coverage of a crop (i.e. Canola) in a county without actuarial documents. However, RMA requires acceptable production

records of the producer's actual yields for at least the most recent three consecutive crop years as consideration for the request to substantiate the producer's ability to produce the commodity in an area where the crop is otherwise uninsurable. Unless such acreage is contiguous to acreage insured in a different county for the same crop, in which case three years of those records may be used.

Section 508(c)(9) of the Act permits the agency to deny insurance based on excessive risk. RMA released Manager's Bulletin MGR-02-001 to provide underwriting control measures for written agreement offers that are determined to have excessive risk. It requires that agreements not currently authorized by the policy will require expert review and FCIC Board approval. In March 2004, RMA released Manager's Bulletin MGR-04-004 providing that producers who have been denied a written agreement because of excessive risk may apply for a written agreement for the same crop, practice, type and/or acreage if the producer executes an APH form and provides adequate supporting records to the insurance provider that demonstrate that if the producer had insurance for at least two crop years since the written agreement was denied, the producer would not have had a loss. RMA has received similar concerns regarding general losses within the area that are not limited to only written agreements, thus consideration for wide spread losses and criteria for determining excessive risk are contained within the Handbook currently under consideration by the FCIC Board and Expert Reviewers.

M. Establish Optional Units for Peanuts

Producers want the ability to insure APH on acreage by section, based on irrigated and non-irrigated practices. They reported that RMA has promised to improve insurance coverage by allowing the establishment of optional farm units similar to other crops such as corn and wheat for the 2004 crop year. However, a new policy with this modification has not yet been released. (12/1 hearing)

RMA Response:

The proposed rule was published in the Federal Register on May 17, and the public comment period ended on June 16. RMA is responding to pubic comments and preparing the final rule that will address the issue of units. The rule will be effective for the 2005 crop year.