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BULLETIN NO.: MGR-98-008

TO: All Reinsured Companies
All Risk Management Field Offices

FROM: Kenneth D. Ackerman
Administrator

SUBJECT: Crops Grown Under a Processor Contract

BACKGROUND:

Several crop provisions in effect for the 1998 and succeeding crop years require that a processor contract be in effect for acreage to be insurable. In addition, the contract must contain a commitment by the processor to purchase the production stated in the contract, and the contract must be executed not later than a specific date.

Several questions have been raised regarding insurable acreage in different situations, such as when the insured plants more acreage than is stated in the processor contract. Risk Management Agency has been advised that some companies are insuring all the planted acreage while others are insuring only the number of acres stated in the processor contract. The following questions and answers are provided to clarify these issues. These questions and answers assume that the acreage otherwise is insurable under the terms of the crop insurance provisions and the actuarial materials (e.g., there is no uninsurable land designated in the actuarial tables).

1. Question - What acreage is reported as insurable when the processor contract states that the processor will accept the production from a specific number of acres and the insured plants more than this amount?

Answer - The acreage reported as insurable will be the acreage stated in the processor contract. The remaining acreage must be reported as uninsurable. See question #5 for instructions on processing a claim for indemnity.

2. Question - What acreage is insurable when the processor contract states a minimum or a maximum number of acres, or both?

Answer - If a minimum number of acres is specified and the insured fails to plant this amount, and the contract contains no provision that makes the processor liable to accept the production, there is no contract and thus no insurable acres. If a maximum number of acres is specified, the acreage to be reported as insurable is the planted acres, not to exceed the maximum. Planted acres that exceed the maximum are to be reported as uninsurable.

If both a minimum and a maximum are specified, the same rules as stated above apply.

For prevented planting purposes, the minimum number of acres stated in the contract will be used if both a minimum and a maximum are specified.

3. Question - What acreage is reported as insurable when the contract states that the processor will accept production from more planted acreage than the number contained in the contract?

Answer - The number of acres that may be reported as insurable is the planted acres, not to exceed the maximum acreage that the processor agrees to accept. The contract terms applicable to the extra production must comply with the definition of a processor contract in order to be insurable.

4. Question - If the insured plants more acres than are stated in the processor contract, and the processor is willing to accept the production from the additional acreage, can the processor amend the contract, and is the additional acreage insurable?

Answer - The number of insurable acres are the acres stated on the amended contract if it is amended prior to, or on the acreage reporting date unless otherwise specified in the Crop Provisions. If the contract is amended after this date, the additional acreage may not be reported as insurable.

5. Question - How will the production to count be determined in situations when the insured plants more acreage than what is insurable under the crop provisions?

Answer - The total production (harvested and appraised) from all planted acreage (whether reported as insurable or uninsurable) within each unit will be divided by the number of planted acres to establish the average yield per acre. This yield per acre will then be multiplied by the insured acreage to determine the production to count for claim and subsequently for APH purposes. This approach eliminates the need to determine which acreage is the insurable acreage (e.g., 40 acres specified in the processor contract and 45 acres planted).

6. Question - If the processor contract does not state the insured's name, is the crop considered as being under contract?

Answer - In most instances, the processor contract must contain the name or names of each individual whose production will be accepted under the processing contract. However, in some cases a person's name may not be listed on the contract even though their share of the production is considered to be under contract by the processor.

In these instances, if the insurance provider can verify that the production will be accepted under the processor contract, then the insurance provider can consider all production under this contract as insurable. Verification that the production is under contract should be documented and maintained in the insurance file.

7. Question - If the processor contract stipulates both the number of acres to be planted and the amount of production to be delivered, which unit division guidelines are effective?

Answer - Acreage insured to fulfill a processor contract which provides that the processor will accept a designated amount of production or a combination of acreage and production will not be eligible for optional units (optional units for green peas may be established based on shell type and pod type).

8. Question - If a producer contracts with more than one processor and plants the crop in one or more fields, how does the insurance provider know what acreage is covered by which processor contract?

Answer - The producer must designate on the acreage report on or before the acreage reporting date, what acreage is under which contract (i.e., the 10 acres in the south part of the field is covered under processor A, the 15 acres in the middle of the field is covered under processor B, and the 15 acres in the north part of the field is covered under processor C).

ACTION:

All reinsured companies **MUST** assure that the appropriate processor contracts were executed by the date specified in the crop provisions. The loss adjuster **MUST** verify the contract was executed in accordance with the policy provisions and appropriate entries (i.e., legal description, share and acres) at time of the loss inspection.

EFFECTIVE DATE: Upon issuance of bulletin.