

MINUTES
OF THE
MEETING OF THE BOARD OF DIRECTORS
OF THE
FEDERAL CROP INSURANCE CORPORATION

A meeting of the Board of Directors (Board) of the Federal Crop Insurance Corporation (FCIC) was held on January 25, 2007, in Room 108-A of the Jamie L. Whitten Federal Office Building, Jefferson Drive, Washington, D.C. The public was invited to attend the open session portion of the meeting.

Meeting
January 25, 2007

The meeting was called to order at 9:00 a.m. EST in open session.

Call to Order
Open Session

The Chairman requested Board members to introduce themselves. Present were Keith Collins, Chief Economist USDA and Chairperson; Mark Keenum, Under Secretary Farm and Foreign Agricultural Services (FFAS); Bill Classen; Tim Kelleher; Frank Jones; Mike Pickens and Luis Monterde, constituting a statutory quorum; Eldon Gould, Manager, FCIC; and Brent Doane, Secretary, FCIC and James Callan, Deputy Manager, FCIC .

Also present were Floyd Gaibler, Deputy Under Secretary, FFAS; Butch May, FFAS; David Grahn and Kim Arrigo, Office of the General Counsel (OGC); Alan Ott, Tim Witt, Tim Hoffman, Tom Worth, Ron Lundine, Amy Roeder, Chris Aulbur, Shirley Pugh, Cindy Spoor, Velerie Eddelman (via phone) and Bridger Roy of the Risk Management Agency (RMA); Roger Swartz, American Farm Bureau Insurance; Dennis Daggett, John Deere Credit Services; Michael Torrey and Kent Wilson, Crop Insurance Research Bureau; Myles Watts, Watts and Associates; Hunt Shipman, Farm Bureau Mutual; Stephen Frerichs, Rain and Hail; Jason Schickedanz and Kerry Shropshire, AgForce (via phone); and Brian Tobben, PartnerRe (via phone);.

Present

Dr. Collins provided attendees with an overview of the Board's activities during the briefing sessions that included in addition to discussing products to be reviewed, meeting with the directors of RMA's 10 regional offices and an update regarding RMA's compliance activities.

David Grahn read the recitation to all members of the Board to advise the Board of its responsibilities in representing the interests of the FCIC and USDA. No issues were identified that would require recusal of any members of the Board for this meeting.

Recitation

Dr. Collins asked Eldon Gould, FCIC Manager for the Manager's Report (the Manager's Report is available on line at www.rma.usda.gov). Mr. Gould commented specifically on the

Manager's Report

meetings with the directors of the regional offices and their involvement with partnerships and agreements, large claims, high program participation, water issues, increased interest in Adjusted Gross Revenue (AGR) and AGR Lite plans of insurance, and issues related to the California citrus freeze. Also, Mr. Gould updated the Board on the successful sale of the Pasture, Rangeland, Forage (PRF) plan of insurance, that the language which prohibited work on PRP during the 2007 reinsurance year will not be carried forward as part of the continuing resolution and that at this time, PRP will be available for the 2008 reinsurance year, and that the revised draft of the conflict of interest procedures memo will be finalized in the near future.

A motion was made and seconded to dispense with the reading of the Minutes and to approve the Minutes of the meeting of the Board held on December 18, 2006.

Dispense with
Reading –
Minutes

The motion carried. (Exhibit No. 2877)

Approved

The Chairman provided a brief history of the PRF product development and a summary of the PRF Area Grassland Index Product (PRF AGI). Dr. Collins noted that while the product developed by Watts and Associates was quite creative and involved the analysis of an extensive amount of data, nonetheless, the Board and RMA had raised several issues that needed to be addressed. For that reason, the PRF AGI was removed from the agenda to allow RMA and Watts and Associates to work through those issues.

Pasture,
Rangeland,
Forage Area
Grassland Index –
Removed from
Agenda

Dr. Tom Worth briefed the Board on the expert reviewer findings regarding the Variable Unit Discount Procedure. This new discount procedure would replace the current fixed unit discount with a variable unit discount based upon certain producer characteristics. The Board was informed that the newly proposed procedure will not change coverage options or data requirements, and will improve actuarial efficiency. Overall, Dr. Worth noted that the reviewer comments did not raise significant concerns about the model used or those concerns have been addressed. Additionally, reviewers found that the proposed discount better accounts for the effect of consolidating units on a producer's risk than does the current fixed discount. It was stated that the variable unit discount procedure will result in an increase in program complexity because the discount will no longer be a flat percentage but would have to be calculated for each producer.

Variable Unit
Discount
Procedure

Mr. Kelleher and Dr. Collins noted that the procedure would be implemented as part of the electronic written agreement project and the implementation of the combined actual production history and revenue policies (Combo Policy).

The Chair offered the following resolution, which was seconded, for adoption:

RESOLVED, that pursuant to the information contained in Docket No. CI - Variable Unit Discount Procedure - 07-01, Exhibit No. 2880, as well as other materials that were submitted to the Board on this matter, the Board hereby approves the Variable Unit Discount Procedure beginning with the 2009 crop year as authorized under section 508(d)(2) and 523 (a)(4)(D)(i) of the Federal Crop Insurance Act, for the following crops, corn, soybeans, wheat and cotton, is hereby approved.

Approved

Experienced
Based Discount
Procedure

The Board voted to approve the resolution. (Exhibit 2880)

Dr. Tom Worth briefed the Board on expert reviewer findings regarding the Experienced Based Discount Procedure (EBDP). Dr. Worth reminded the Board that the Federal Crop Insurance Act (Act) allows FCIC to consider a discount for producers that have experience that is better or compares favorably to other producers in their area. Summarizing the reviewers' comments, Dr. Worth noted that the new procedure would capture some of the remaining variation in risk across producers. It was also explained that as RMA improves the current rating structure, the size of discounts may potentially decrease and that this procedure will increase the complexity of the program.

Discussion amongst the Board members centered on concerns that the size the discount was small compared to the increase in complexity, the discount would not positively serve program integrity because some producers with very high loss history relative to producers in other parts of the country could still qualify for the discount, coverage level may determine eligibility for a discount as one producer with low coverage levels may receive a discount while another producer with the same loss experience but high coverage levels may not qualify for a discount, and there were additional costs to administer and deliver the new procedure. It was noted by the Board that four of the five reviewers recommended disapproval.

Before offering a resolution, the Chair noted that while the Board likes the idea of an experience based discount, it seems as if the Board may be questioning whether this is the proper application of the discount.

The Chair stated that he would begin by offering a resolution which would approve the EBDP.

The Chair offered the following resolution:

Resolution

RESOLVED, that pursuant to the information contained in Docket No. CI - Experienced Based Producer Discount Procedure 07-01, Exhibit No. 2881, as well as other material that were submitted to the Board on this matter, the Board hereby approves the Experience Based Producer Discount Procedure beginning with the 2009 crop year as authorized under section 508(d)(3)) of the Federal Crop Insurance Act, for the following crops cotton, wheat, corn, soybeans, oats and corn is hereby approved.

Withdrawn

The motion was not seconded, and the Chair withdrew the resolution.

Next the Chair offered the following resolution, which was seconded for adoption:

Approved

RESOLVED, that pursuant to the information contained in Docket No. CI - Experienced Based Producer Discount Procedure 07-01, Exhibit No. 2881, as well as other materials that were submitted to the Board on this matter, the Board hereby disapproves the Experience Based Producer Discount Procedure as authorized under section 508(d)(3) of the Federal Crop Insurance Act, is hereby approved.

The Board voted to approve the resolution. (Exhibit 2881)

Following the vote by the Board, the Chair commented that the Board would be receptive to new ideas in the future and encouraged individuals and entities in the public arena to develop and present their ideas to the Board.

Florida Avocados

Mr. Pickens indicated that he would like to take this concept to the National Association of Insurance Commissioners Crop Insurance Working Group for their consideration.

Lastly, Mr. Kelleher noted that the Board's decision today should in no way reflect negatively on the work put forth by the contractor.

Ron Lundine briefed the Board on the evaluator's findings regarding the Florida Avocado pilot plan of insurance. Overall, it was determined that the APH concept is appropriate, there was no evidence of waste, fraud, or abuse, and that optional units are necessary to provide adequate coverage. Additionally, it was noted that following hurricane damage it is difficult to distinguish between early & late varieties and smaller producers have many varieties mixed, making loss adjustment difficult.

While some Board members expressed concern that the program suffered from low participation and was covering a small number of acres, it was noted that over time, the program has had a favorable loss ratio. Dr. Keenum commented that the pilot has been in

existence for nearly 8 years and that it would not be a service to producers to pull the program at this time. Also, there is nothing that prevents RMA from coming back and reviewing the program in the future.

The Chair offered the following resolution, which was seconded, for adoption:

RESOLVED, that pursuant to the information contained in Docket No. CI - Florida Avocado Pilot Crop Insurance Program 07-01, Exhibit No. 2882, as well as other related materials that may have been submitted to the Board for consideration and discussion on this matter, the Board approves the conversion of the Florida Avocado Pilot Crop Insurance Program to a permanent program beginning with the 2008 crop year, with reinsurance, risk subsidy, and administrative and operating subsidy in amounts and under such terms and conditions as determined appropriate by the Manager as authorized under section 508 of the Federal Crop Insurance Act, is hereby approved. AND BE IT FURTHER RESOLVED, That the Board delegates to the Manager the authority to make such technical policy changes as are necessary to make the policy legally sufficient.

Approved

The Board voted to approve the resolution. (Exhibit 2882)

Adjourn

In closing remarks, the Chair recognized Dr. Mark Keenum as the newest member of the Board and thanked Floyd Gaibler for his diligent participation and service to the Board while serving as the Acting Under Secretary for FFAS.

Chairman Collins then thanked the Board members and staff for their participation and efforts.

There being no further business to come before the Board the meeting adjourned to meet again sometime in February in Washington, DC.

January 25, 2006

/Signed/
Brent Doane, Secretary
Federal Crop Insurance Corporation