

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 July 13, 2006, 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
July 13, 2006

The meeting was called to order at 9:00 a.m. 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; JB Penn, Under Secretary Farm and Foreign Agricultural Services (FFAS); John Askew; Bill Classen; Tim Kelleher; Frank Jones; Mike Pickens and Luis Monterde, constituting a statutory quorum; Eldon Gould, Manager, FCIC; and Brent Doane, Secretary, FCIC.

Also present were Floyd Gaibler, Deputy Under Secretary, FFAS; Butch May, FFAS; David Grahn, Kim Arrigo and David Brittenham, Office of the General Counsel (OGC); James Callan, Alan Ott, Tim Witt, Tim Hoffman, Kent Lanclos, Tom Worth, Cindy Spoor and Bridger Roy of the Risk Management Agency (RMA); Stephen Frerichs, Rain and Hail; Dennis Daggett, John Deere Credit Services; David Bossman, Applied Analytics; Jay Wilson, National Sheep Industry Improvement Center; Margaret Hinson, American Sheep Industry Association; Dan Rosenstein, RCIS; and Dr. David Smith, California State University, Fresno.

Present

Dr. Collins provided those attending a summary of the Board's activities during the Briefing Session, which included briefings on RMA's information technology system, cooperative rebates and dividends, program administrative and operating expense monitoring, Board priorities as established at the April 2006 retreat, and program participation in underserved areas.

Briefing Session
Review

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, for the Manager's Report (Exhibit 2850). Mr. Gould, noting that the report was contained in materials distributed to each Board member, suggested that the reading of

Manager's Report

the report be dispensed. Mr. Gould commented specifically on RMA's activities with regard to the Premium Reduction Plan status, cooperative dividends, good experience discounts, pasture, rangeland, and forage product rollout, RMA's energy conference, water allocation in Colorado, and soybean rust findings in Alabama and the importance of good documentation by producers.

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 April 27, 2006.

Dispense with
Reading –
Minutes

The motion carried. (Exhibit No. 2849)

Approved

Tim Hoffman, RMA, provided the Board with a presentation on proposed changes to the way in which user fees were calculated for the Livestock Gross Margin (LGM) and Livestock Risk Protection (LRP) plans of insurance. The changes proposed would allow for Iowa Agricultural Insurance Innovations, Inc., and Applied Analytics Group, Inc., and approved insurance providers to agree that the user fee would be based upon either a percentage of the premium dollar for each policy or a flat rate for each policy sold. The Chairman also made it clear that the election of the basis of the user fee would apply to all policies insured under each specific plan of insurance, and that approved insurance providers could not elect to pay a user fee based on premium for some policies and based on a flat rate for other policies under the same plan of insurance. However, the election could be different for each plan of insurance.

LGM and LRP
User Fees

The Chair noted that the resolutions to be proposed will include a means review and adjust annually the amount of the user fee.

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

RESOLVED, that approval for Docket No. CI-LGM-User Fee-06-01, Exhibit No. 2839 is withdrawn and that pursuant to the information contained in Docket No. CI - LGM User Fee - 06-02, Exhibit No. 2852, as well as other materials that were submitted to the Board on this matter, the Board hereby approves allowing Iowa Agricultural Insurance Innovations, L.L.C. the option of charging approved insurance providers a user fee based on .0167 cents per premium dollar sold or \$200 per policy earning premium for the Livestock Gross Margin Pilot Program, for which the accounting of the user fee will be on a reinsurance year basis with Iowa Agricultural Insurance Innovations, L.L.C. reporting all user fees received and owed from the applicable approved insurance providers to the Board not later than April 1 prior to the start of the next reinsurance year; the amount of the user fee will be reviewed annually and adjusted as necessary so that the average of the user

fees over time will be sufficient to cover the historical maintenance costs as approved by the Board; and if any future policy changes made will result in additional maintenance costs, Iowa Agricultural Insurance Innovations, L.L.C., may request the Board to consider increasing the user fees is hereby approved. AND BE IT FURTHER RESOLVED, That the Board delegates to the Manager the authority to monitor the reasonableness of the user fee to assure that an increase in premium sales is proportional to maintenance expenditures and is not excessive.

The Board voted to approve the resolution. (Exhibit 2852)

Approved

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

RESOLVED, that approval for Docket No. CI - LRP User Fee - 06-01, Exhibit No. 2838 is withdrawn and that pursuant to the information contained in Docket No. CI - LRP User Fee - 06-02, Exhibit No. 2851, as well as other materials that were submitted to the Board on this matter, the Board hereby approves allowing the Applied Analytics Group, Inc. the option of charging approved insurance providers a user fee based on .0425 cents per premium dollar sold or \$65 per policy earning premium for the Livestock Risk Protection Pilot Program, for which the accounting of the user fee will be on a reinsurance year basis with Applied Analytics Group, Inc., reporting all user fees received and owed from the applicable approved insurance providers to the Board not later than April 1 prior to the start of the next reinsurance year; the amount of the user fee will be reviewed annually and adjusted as necessary so that the average of the user fees over time will be sufficient to cover the historical maintenance costs as approved by the Board; and if any future policy changes made will result in additional maintenance costs, Applied Analytics Group, Inc., may request the Board to consider increasing the user fees is hereby approved. AND BE IT FURTHER RESOLVED, That the Board delegates to the Manager the authority to monitor the reasonableness of the user fee to assure that an increase in premium sales is proportional to maintenance expenditures and is not excessive.

The Board voted to approve the resolution. (Exhibit 2851)

Approved

Tim Hoffman provided the Board with a presentation on the extension and modification of the AGR Lite Plan of Insurance. Extension was recommended so as to allow for sufficient time to complete further changes to the policy. Changes proposed at this time involved modifying the contract change date, updating arbitration language, and clarifying the language pertaining to how changes in ownership are dealt with in the policy.

AGR Lite
Extension and
Modification

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

adoption:

RESOLVED, that pursuant to the information contained in Docket No. CI - AGR Pilot Program -06-01, Exhibit No. 2853, as well as other related materials that were presented to the Board on this matter, the Board hereby approves extension of the Adjusted Gross Revenue (AGR) Pilot Program with the following modifications: (1) Change the contract change date for AGR to August 31, (2) Update the arbitration language to the most current language available from the Basic Provisions as modified as necessary, and (3) Clarify language pertaining to ownership and use for farming operations that are transferred to new owners or when insureds change their tax entities, beginning with insurance year 2007 and continuing until such time results of the AGR evaluation can be incorporated into a new policy and issued, with reinsurance, risk subsidy, and administrative and operating subsidy in amounts and under such terms and conditions as determined appropriate by the Manager beginning with the 2007 crop year as authorized under sections 508(a)(1), 522(c)(1), 523(a)(3)(D), and 523(a)(4) of the Federal Crop Insurance Act. AND BE IT FURTHER RESOLVED, that the Board delegates to the Manager the authority to make such technical and procedural changes as are necessary to make the AGR Pilot Program technically and legally sufficient.

The Board voted to approve the resolution. (Exhibit 2853)

Approved

Kent Lanclos provided the Board with a presentation on the California Avocado Pilot Program with a recommendation that the Board continue the program until the program can be converted to an actual production history based product.

CA Avocado

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

RESOLVED, that pursuant to the information contained in Docket No. CI – California Avocado Revenue Pilot Program - 06-01, Exhibit No. 2854, as well as other related materials that were submitted to the Board for consideration and discussion on this matter, the Board approves the continuation of the California Avocado Revenue Pilot Crop Insurance Program on a pilot basis until such time as the Risk Management Agency develops an alternative actual production history plan of insurance, at a coverage level that is not greater than 60 percent of the recorded or appraised average yield, 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 522(c) and 523(a)(4)(b) 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.

By opinion of the Chair, the Board voted to approve the resolution. (Exhibit 2854)

Approved

Tim Hoffman provided the Board with a presentation on the Apple Quality Option Pilot Program with a recommendation that the option be discontinued because the program has not been widely accepted, the program has experienced a high loss ratio suggesting the premium rate was not appropriate, and increased premiums to correct historical losses would not be well accepted. Furthermore, it was recommended that the Regional Offices should review and consider moving some apple varieties in some regions from the lower valued Group B to the higher valued Group A because the changes in buyer preferences have changed the value of some varieties.

Apple Quality
Option Pilot

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

RESOLVED, that pursuant to the information contained in Docket No. CI - Apple Quality Option Pilot - 06-01, Exhibit No. 2855, as well as other related materials that were submitted to the Board for consideration and discussion on this matter, the Board disapproves continuation of the Apple Pilot Quality Option beginning with the 2007 crop year on the basis that the Board has been unable to make a determination that: (1) The proposed pilot complies with all applicable provisions of the Federal Crop Insurance Act, (2) The interests of producers are adequately protected, (3) Premium rates are actuarially appropriate, and (4) That crop insurance program integrity will be protected.

The Board voted to approve the resolution. (Exhibit 2855)

Approved

Kent Lanclos provided the Board with a presentation on the Raspberry Blackberry Program with RMA's recommendation that the program be discontinued. This recommendation was in contrast to the evaluator's recommendation that the program be continued with modification. In recommending discontinuation of the Raspberry Blackberry Program, Mr. Lanclos noted the minimal participation and minimal potential for future expansion, and the availability of AGR/AGR Lite in Oregon and Washington.

Raspberry
Blackberry
Program

The Board expressed concern as to whether risk protection was really being provided in light of the minimal number of acres being covered and the fact that only three indemnity checks had been written over the life of the program. Additional concerns were raised regarding the possibility of direct marketing. Lastly, the Board noted that other means were available to reduce risk such as the increased use of "tunnels" and similar types of technologies to

protect crops from the elements.

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

RESOLVED, that pursuant to the information contained in Docket No. CI – Raspberry Blackberry Program - 06-01, Exhibit No. 2856, as well as other related materials that were submitted to the Board for consideration and discussion on this matter, the Board disapproves the continuation of the Raspberry Blackberry Pilot Crop Insurance Program on a pilot basis beginning with the 2007 crop year on the basis that the Board has been unable to make a determination that: (1) The proposed pilot complies with all applicable provisions of the Federal Crop Insurance Act, (2) The interests of producers are adequately protected, (3) Premium rates are actuarially appropriate, and (4) That crop insurance program integrity will be protected.

The Board voted to approve the resolution. (Exhibit 2856)

Approved

Tom Worth presented to the Board the USDA Unit Division Structure Review (Variable Unit Discount Program) with the recommendation that the Board contract with 5 independent expert reviewers to review this program. This new variable unit discount would replace the current fixed unit discount with a variable unit discount based upon certain producer characteristics. Dr. Worth noted that the program will not change coverage options, will not change data requirements, and will improve actuarial efficiency.

Unit Discount Program

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

WHEREAS, The Federal Crop Insurance Act (Act) requires the Board to enter into contracts with persons experienced as actuaries and in underwriting for reviews of any policy or plan of insurance, or any related material or modification of a policy or plan of insurance proposed to be offered under the Act, NOW THEREFORE BE IT RESOLVED: That: 1) the Manager of the Corporation be authorized to take such action as necessary to enter into and execute contracts with the persons or entities on the attached list, or the alternates in case the proposed persons are not available, to review the Variable Unit Discount Procedure prior to Board action; and 2) the attached task order statement of work be used to execute the contracts.

Prior to voting on the resolution, Mr. Kelleher requested that the reviewers address the problems associated with and cost of implementation to RMA and the AIP's.

The Board voted to approve the resolution. (Exhibit 2857)

Approved

Cindy Spoor provided the Board with information regarding individuals interested in serving in the pool of expert reviewers.

Expansion of
Expert Reviewers

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

WHEREAS, Section 505(e) of the Federal Crop Insurance Act (Act) requires the Board to enter into contracts for reviews of any policy or plan of insurance, or any related material or modification of a policy or plan of insurance proposed to be offered under the Act by persons experienced as actuaries and in underwriting, NOW THEREFORE BE IT RESOLVED, that the list of approved expert reviewers be amended to add Whitestone Capital Group, Inc., provided that Dr. Phelim P. Boyle participates in and signs the review on behalf of Whitestone Capital Group, Inc., as an actuarial reviewer.

The Board voted to approve the resolution. (Exhibit 2858)

Approved

Chairman Collins made comments regarding the efficacy of designing a crop insurance programs for those classes of products where there is limited price discovery. In response to the concern, RMA convened a group of experts in April 2006 to address this issue. Those discussions resulted in a summary report that was discussed by the Board during the Briefing Session. The Board will address action items related to this class of products at the September meeting.

Crop Insurance
for Products with
Limited Price
Discovery

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 in Kansas City, MO September 26-28, 2006.

July 13, 2006

/signed/
Brent Doane, Secretary
Federal Crop Insurance Corporation

