

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 April 26, 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
April 26, 2007

The meeting was called to order at 8:00 a.m. in open session.

Call to Order
Open Session

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. One issue was identified that would require recusal of a member of the Board for this meeting. Mr. Sindergard agreed to recuse himself during discussions of the 508(h) Submission No. 001.

Recitation

The Board then immediately went into executive session to discuss confidential matters with Risk Management Agency (RMA) staff and submitters.

Executive Session

The open session of the Board reconvened at 1:40 p.m.

Reconvene Open
Session

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

Present

Floyd Gaibler, Deputy Under Secretary, FFAS; Butch May, FFAS; David Grahn, Kim Arrigo and Don Brittenham, Office of the General Counsel (OGC); Alan Ott, Tim Witt, Tim Hoffman, Tom Worth, Amy Roeder, Cindy Spoor, Leiann Nelson, Margo Erny, Mary Alonzo, Velerie Eddelman (phone) and Bridger Roy of RMA; Don Preusser, Stacey Johnson and Dennis Daggett (phone), John Deere Credit Services; Tim Watts and Shirlene Watts, Watts and Associates; Hunt Shipman, Farm Bureau Mutual; Stephen Frerichs, Rain and Hail; Jason Schickedanz and Kerry Shropshire, AgForce; Roger Schnitzlor and Griffin Schnitzlor, FARMCO; Don Armstrong and Rob Cerda (phone), Crop Insurance Services; Ken Ackerman, Olsen, Frank and Weeda; and David Graves, American

Association of Crop Insurers.

Dr. Collins introduced Mr. Curt Sindergard as the newly appointed member of the FCIC Board of Directors. Mr. Sindergard, a corn and soybean farmer from Rolfe, Iowa, will serve as one of the producer representatives to the Board.

Introduction: Curt Sindergard

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). Recognizing that the Board meeting was running longer than expected, Mr. Gould dispensed with his review of the Manager's Report with the exception of recognizing that Dr. James Hipple, RMA, had recently been named as a recipient of the Outstanding Service Award from the American Society for Photogrammetry and Remote Sensing for his work with data mining and remote sensing.

Manager's Report

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 February 21, 2007.

Dispense with Reading – Minutes

The motion carried. (Exhibit No. 2886)

Approved

Dr. Collins began the discussion of action items by noting that the Board needed to clarify the definition of an agricultural commodity since several of the products to be considered by the Board were derivative agricultural products, i.e., honey from bees and milk from dairy cattle. To clarify the definition, the Chair offered the following resolution, which was seconded, for adoption:

Definition of Agricultural Commodity

WHEREAS, section 518 of the Federal Crop Insurance Act specifically defines "agricultural commodity" for the purposes of the eligibility for crop insurance;

WHEREAS, certain by-products of certain commodities have been included in the definition of "agricultural commodity" in section 518, such as fruits and nuts; but by-products of animals or livestock have not been included in the definition of "agricultural commodity" in section 518;

WHEREAS, the Board has the authority to expand the definition of "agricultural commodities", but, the Board has not previously expanded the definition to authorize individual crop insurance policies that cover animal or livestock by-products;

RESOLVED THAT, the Board hereby approves the expansion of the definition of "agricultural commodities" to include animal or livestock by-products.

Prior to voting on the resolution, Mr. Kelleher asked for clarification

regarding the types of products covered. Representatives of OGC stated that the resolution would not reach to “processed” derivative products such as beef or bacon, but that a product such as wool would be considered an agricultural product under this resolution.

The Board voted to approve the resolution. (Exhibit 2903)

Approved

Due to the proprietary nature of the Apiculture Rainfall Index product, no presentations were made in the public session of the meeting.

508(h)
Submission –
Apiculture Rainfall
Index

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 Apiculture Rainfall Index plan of insurance prior to Board action; and 2) the attached task order statement of work be used to execute the contracts.

The Board voted to approve the resolution. (Exhibit 2888)

Approved

Due to the proprietary nature of the Apiculture Vegetation Index product, no presentations were made in the public session of the meeting.

508(h)
Submission –
Apiculture
Vegetation Index

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 Apiculture Vegetation Index plan of insurance prior to Board action; and 2) the attached task order statement of work be used to execute the contracts.

The Board voted to approve the resolution. (Exhibit 2889)

Approved

Next the Board took up the matter of the 508(h) Submission 001. Due to the confidentiality of business information, the Chair would not mention the names of the product or submitters.

508(h)
Submission 001

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 proposed policy, plan of insurance, or premium to be offered under the Act;

WHEREAS, Due to significant legal and procedural issues that remain to be resolved, the submitter and the Board have agreed to waive the 90 day notice of intent to disapprove and agree that the Board will have not more than 180 days from the date this resolution is approved to issue its determination to approve or provide its notice of intent to disapprove Submission 001;

WHEREAS, The Board agrees that it is appropriate to submit the submission for expert review while these issues are being resolved and to ask the expert reviewers assistance in the resolution of certain issues, 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 Submission 001 prior to Board action; and 2) the attached task order statement of work, as revised to address the issues raised by the Board, be used to execute the contracts.

Prior to voting, Dr. Collins noted that Mr. Sindergard had recused himself and would not be voting on the resolution.

The Board voted to approve the resolution. (Exhibit 2890)

Approved

Due to the proprietary nature of the Milk Revenue product, no presentations were made in the public session of the meeting.

508(h)
Submission
Milk Revenue

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 Milk Revenue plan of insurance prior to Board action; and 2) the attached task order statement of work be used to execute the contracts.

The Board voted to approve the resolution. (Exhibit 2891)

Approved

Due to the proprietary nature of the LGM Dairy product, no presentations were made in the public session of the meeting.

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

508(h)
Submission
LGM Dairy

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 Livestock Gross Margin for Dairy Cattle Pilot prior to Board action; and 2) the attached task order statement of work be used to execute the contracts.

The Board voted to approve the resolution. (Exhibit 2904)

Approved

Due to the proprietary nature of the Processing Pumpkin product, no presentations were made in the public session of the meeting.

508(h)
Submission
Processing
Pumpkins

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

RESOLVED, that pursuant to the information contained in Docket No. CI-Processing Pumpkins-07-01, Exhibit No. 2892, as well as other related materials that were submitted to the Board for consideration and discussion on this matter, the Board approves the Processing Pumpkins plan of insurance submitted by the F.A.R.M. Co. Insurance Agency, under section 508(h) of the Federal Crop Insurance Act, 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 sections 508(h) of the Federal Crop Insurance Act. 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 and to offer the policy for sale when the RMA data processing system is able to process such policies.

Mr. Kelleher offered the following amendment to the resolution which was seconded.

Amendment

AMENDMENT: With the consent of the submitter, the pilot area is to be expanded to neighboring counties, provided sufficient yield data is available to validate rates.

The Board voted to approve the amendment.

Approved

Next, the Board voted to approve the resolution. (Exhibit 2892)

Approved

Dr. Tom Worth briefed the Board on the expert reviewer findings regarding the two proposals for addressing the problem of declining yields over time and the resulting reduction in guarantee for producers. The first product discussed, Indexed APH, would use the county average yield to stabilize individual APH guarantees. The second product discussed, Alternative Yield Measure, would use an individual producer's actual yield and a choice of four variants to determine a substitute for a low yield in a particular crop year.

Declining Yields:
Alternative Yield
Measure and
Indexed APH

In summarizing the proposals, Dr. Worth commented that while the proposals seemed to be a relatively simple measure, there were severe problems with the possibility of over-insurance and moral hazard. Furthermore, a rate increase would likely be necessary to reduce the occurrence of adverse selection.

Dr. Worth indicated that while the two products as proposed faced serious problems in design and structure, there was nevertheless a possible third alternative that would be to take aspects of each product proposed and come up with an indexed yield plug that would replace a producer's yield in a year when it falls below a certain level. This concept would need further study by RMA before being implemented.

Board discussion focused particularly on the problems of adverse selection, rate increases, necessary changes to statutory language, and the likelihood of over-insurance. Chairman Collins recapped the history of these products and commented on the difficult task the developers were faced with in addressing the problems of declining yields.

Based upon the discussion, the Board agreed to table the two proposals with instruction to RMA to further research the development of an indexed yield plug.

Tabled for further
study

Mary Alonzo briefed the Board on the Cultivated Clam program evaluation to the Board and the significantly improved loss experience following the 2004 program modifications. From 2000 to 2004, the pilot's loss ratio was 1.85. Following the 2004 modifications, the loss ratio decreased to 0.66. It was the RMA's recommendation to continue the Cultivated Clam Pilot Insurance Program with minor changes. In addition to Ms. Alozo's presentation, the Board was provided copies of letters from producers urging for the Board to continue the program since insurance is vital to securing operating loans.

Following discussion by the Board, the Chair offered the following resolution, which was seconded, for adoption:

RESOLVED, that pursuant to the information contained in Docket No. CI - Cultivated Clam Pilot Crop Insurance Program 07-01, Exhibit No. 2895, 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 continuation of the Cultivated Clam Crop Insurance Program on a pilot basis through the 2011 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 and 523(a) 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.

The Board voted to approve the resolution. (Exhibit 2895)

Approved

William Murphy presented to the Board RMA's proposal for the deletion of six hundred fourteen (614) selected county crop programs. Reasons for deletion include lack of participation between 2002 to 2006 or excessive risks that cannot be explained by weather events alone.

Deletion of County Crop Programs

The Board discussion noted that for those county crop programs being deleted, the use of written agreements would still be available to producers should they eventually decide to seek coverage.

Following discussion by the Board, the Chair offered the following resolution, which was seconded, for adoption:

RESOLVED, That Docket No. CI – County Crop Deletions – 07-01, Exhibit No. 2896, authorizing the Federal Crop Insurance Corporation to delete six-hundred fourteen county crop insurance programs for the counties and crops listed in the attachment, effective for the 2008 or 2009 crop year as applicable, since FCIC

has determined that these programs have either had no participation reported between crop years 2002 and 2006 or excessive risks have been shown to exist.

The Board voted to approve the resolution. (Exhibit 2896)

Approved

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

Expansion of
Expert Reviews

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 Lewayne Jansonius as an actuary reviewer.

The Board voted to approve the resolution. (Exhibit 2897)

Approved

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

In a closing remark, Dr. Mark Keenum thanked Chairman Collins for his leadership of the Board in addressing some very challenging issues.

There being no further business to come before the Board the meeting adjourned to meet again for a conference call in late May or early June.

April 26, 2007

/signed/
Brent Doane, Secretary
Federal Crop Insurance Corporation