United States Department of Agriculture

Federal Crop Insurance Corporation

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DATE: November 18, 2010

TO: Board of Directors
Federal Crop Insurance Corporation

FROM: William J. Murphy /signed/
Manager

SUBJECT: Manager's Report
Exhibit No. 4001

This memorandum serves as the Manager's Report to the Federal Crop Insurance Corporation (FCIC) Board of Directors (Board) for the November 18, 2010, meeting.

PROGRAM UPDATE:

APH Sesame Pilot: The Food, Conservation and Energy Act of 2008 required that the Risk Management Agency (RMA) develop a pilot crop insurance program for sesame produced under contract in Texas. The proposed Actual Production History Sesame pilot crop insurance program was approved by the Federal Crop Insurance Corporation Board of Directors for selected counties in Texas and Oklahoma on November 19, 2009. The APH-Sesame pilot policy materials were released on October 28, 2010 for the 2011 crop year with sales to continue through January 31, 2011 in selected counties in southern Texas and in Oklahoma through March 15, 2011.

Florida Fruit Tree Pilot Program Evaluation: RMA periodically conducts evaluation of its pilot crop insurance programs to assess their performance and effectiveness. A contract to evaluate the performance of the Florida Fruit Tree Pilot Program was awarded to Watts and Associates. Work on the evaluation is underway.

Cottonseed Endorsement: The Cottonseed Endorsement has been released for sale for the 2011 crop year. The first 2011 crop year sales closing date for purchase of the Cottonseed Endorsement is January 30, 2011.

Livestock Gross Margin for Dairy Cattle (LGM-Dairy): LGM-Dairy has been released for sale for the second half of the 2011 reinsurance year. The revisions were approved by the Board in May 2010 and will be effective with the December 17, 2010, sales closing date.

Simplification/Reduction of Special Provisions of Insurance (SPOI) Statements: RMA has finished a complete and detailed review of all SPOI Statements for every risk management insurance product reinsured by FCIC. The purpose of this review was to: (1) Combine yield and revenue product statements to reflect the new 'Combo' product, (2) Assure that all statements using the new Common Crop Insurance Basic Policy were appropriate for the new policy and correctly referenced the new policy, (3) Provide consistent wording and format between regions and crops to the extent possible, (4) Code statements to show up appropriately in the new Actuarial Information Browser, and (5) Capture data contained in statements to use for editing crop insurance sales data received from insurance companies.

This cross-functional project took approximately 16 months to complete and involved RMA's regional offices, Kansas City staff, and Washington D.C. staff. Over 508,000 insurance offers representing crop/state/county/type/practice were reviewed. The results of this effort are that the number of SPOI statements are estimated to decrease by 30 percent over the 2011 and 2012 CY's; 7 percent in the 2011 CY compared to the 2010 CY, and an additional decrease of 23 percent in the 2012 CY compared to the 2011 CY. Procedures and ITM systems are being put into place to maintain this streamlined set of SPOI statements.

Acreage Crop Reporting and Streamlining Initiative (ACRSI): ACRSI started in July 2010 sponsored by the Deputy Undersecretary of Farm and Foreign Agricultural Services and the Department of Agriculture Chief Information Officer. The initiative intends to simplify reporting processes, dates, and data definitions. Agencies participating in the ACRSI include RMA, FSA, NRCS, and NASS. ACRSI is working on redesigning business processes and definitions to allow for common program participation information to be consolidated and redistributed across USDA. ACRSI's concept will facilitate establishing a single USDA site, as an option for the producer to report their information. By streamlining and automating reporting, ACRSI would achieve fewer burdens on the producer to participate in USDA programs while simultaneously improving program integrity through consistent reporting and data across all USDA agencies and programs. Ultimately, ACRSI could allow for automated reporting from the producer's precision GPS monitoring equipment or farm management system.

To implement ACRSI in an economical manner, the concept is to expand the Comprehensive Information Management System (CIMS). CIMS provides RMA, FSA, NASS, OIG, other USDA agencies and participating crop insurance companies timely access to a single, centralized storage repository of RMA and FSA producer and program information. CIMS is increasing the reliability and accuracy of program data collection by providing users access to an integrated information management system containing crop insurance, conservation, and farm programs. In the past year, federal users have made over 21,000 requests and the insurance companies have submitted over 20 million requests for information on insured producers from CIMS.

CIMS staff is working with RMA and FSA to standardize reporting requirements that will reduce differences in definitions of basic agency terms, be used in systems designed to allow producers to report common USDA data once that the agencies will share, thereby reducing the occurrence of differences in program participation information.

Benefits

- Provide information services for RMA, FSA, (including State and county offices), NRCS, NASS and USDA for timely access of producer information.
- More efficient data sharing between FSA, RMA and AIPs for SURE, ACRE and Crop Insurance benefit determination.

- Increase reliability and accuracy of data collection by providing users access to an integrated information management system containing crop insurance, conservation, and farm programs
- Design services to allow producers to report common USDA data once for agencies to share, thereby reducing the burden on customers and employees in the collection of information required for program participation
- Develop collaborative relationships with agencies and the private sector in the use of innovative technologies to encourage producers to utilize computer-based record-keeping systems based on ACRSI standards
- Weekly, CIMS reports identify potential discrepancies between RMA and FSA producer entities and reported crop acreage. These reports identify the possible misreporting and support the data reconciliation efforts between RMA and FSA as required by the Agricultural Risk Protection Act of 2000. Approved crop insurance companies have reported the CIMS notification of non-reported acreage, entity and acreage differences have contributed to the reduction of producer entity and acreage discrepancies.

Performance Based Refund: RMA is working on an Interim Rule to implement a Performance Based Refund (PBR) for qualifying producers in accordance with section 508(d)(3) of the Federal Crop Insurance Act. The PBR will return a portion of premium to producers with good experience over a period of years. The Interim Rule is expected to be published in early 2011.

Supplemental Revenue Assistance Program (SURE) Update: RMA Product Management continues to work with the Farm Service Agency (FSA) Production, Emergencies, and Compliance Division (PECD) on the SURE program. The parties hold weekly teleconferences to discuss any questions and concerns presented by the crop insurance industry and/or FSA staff regarding the SURE program. RMA provides subject matter experts from Product Management and Insurance Services to discuss the operations of the crop insurance policies to assure that FSA has a clear understanding of the data being provided for the SURE program and to assist FSA in determining whether they want to request data modifications in the SURE output file being provided by RMA. The first 2009 CY SURE test file was provided to FSA October 28, 2010. The test files for specific change requirements that occurred specifically for the 2009 crop year will be provided subsequent to receiving the final change requirement specifications from FSA.

IT Update: The IT Modernization program continues Phase II development. Phase II focuses on corporate reporting providing data reporting and analysis capabilities. Phase II is scheduled for operation in mid-2011. Phase I focused on actuarial processes, policy processing, premium calculations, and other functions needed to file Crop Year 2011 insurance offers and implement the new Combo policy for 2011. Phase 1 successfully started operations in June 2010.

RMA supports many information technology functions using private contractors. The contract for IT services is generally for five years and is due to expire in 2011. RMA has begun the competition for the next five year contract. A Request for Proposal was issued in September 2010 to prospective contractors interested in bidding for the work.

COMPLIANCE UPDATE:

Final Findings Issued Since the September 2010 Board Meeting

Since the last Board meeting Compliance has issued final findings to reinsured companies for the following amounts: premium overstatements $121,479; indemnity overpayments $249,638; premium understatements $1,093; indemnity underpayments $23,078; and cost avoidance of $23,687.

National Program Operations Review (NPOR)
The regional Compliance Offices continue 2009 reviews of Approved Insurance Providers during 2010. Field reviews are being conducted nationwide and include interviews with policyholders, company personnel, agents, and adjusters who are identified with the selected policies.

Central Regional Compliance Office-	Hudson Insurance Company (HU)
Midwest Regional Compliance Office-	Agrinational Insurance Company (AN)
Northern Regional Compliance Office-	Farmers Mutual Hail Company (FH)
Southern Regional Compliance Office-	John Deere Risk Protection (PE)
Western Regional Compliance Office-	Stonington Insurance Company (ST)

Due to significant ongoing and anticipated OIG Audit and Investigation activity in the Eastern Regional Compliance Office (ERCO) region; the ERCO was not assigned a NPOR for this year. ERCO continues to engage problems in the Nursery program and has initiated a review of problems identified with the Tobacco insurance program.

Tobacco Program Issues Under Review
As noted above, the Eastern Regional Compliance Office has initiated a review of the Tobacco crop insurance program in order to address identified program vulnerabilities associated primarily with shifting production between insured units and entities. Concurrently RMA is working to address quality adjustment problems that have increased since the quota tobacco program was terminated. The present lack of independent graders and markets for tobacco has created an unacceptable vulnerability for the program, which if not corrected, could result in a recommendation to eliminate quality adjustment for tobacco entirely. Compliance is currently looking at reports of similar problems with the Tobacco program in Kentucky and Tennessee.

Recent Compliance Investigation, Appeals, and Sanction Activity
Agent (Disqualification and Civil Fine)
On April 14, 2009, the Southern Regional Compliance Office (SRCO) forwarded this matter to the Appeals and Litigation Staff (A&L) to proceed with a sanctions action against a crop insurance agent. For the crop year 2007, the crop insurance agent, wrote crop insurance policies for Heartland Crop Insurance, Inc. (Heartland). In the spring 2007, the SRCO performed a National Program Operations Review (NPOR) of Heartland policyholders' files. During the NPOR of Heartland, the SRCO determined that the agent, on numerous occasions, improperly signed policyholders' names to insurance sales documents and production and appraisal worksheets and certification forms used to process claims for the 2007 crop year. RMA procedures allow a crop insurance agent to sign in behalf of a policyholder on certain sales documents, provided he is authorized to do so pursuant to a properly executed Power of Attorney (POA). The agent was without valid POA. Further, the agent violated RMA's conflict of interest rule that under no circumstances is a crop insurance agent allowed to sign insurance claim documents in behalf of an insured, regardless of whether the agent has been given a POA.

On September 24, 2010, A&L filed a Complaint with the Office of Administrative Law Judges for the assessment of a civil fine and disqualification of the agent, under section 515(h) of the Federal Crop Insurance Act (7 U.S.C. § 1501, et seq). The Complaint requests a three year disqualification and a civil fine of $10,000.

Producer (Disqualification and Civil Fine)
For the 2009 crop year, this producer purchased crop insurance for his wheat crop in Colusa County, California, through NAU Country Insurance Company (NAU). On July 6, 2009, the producer filed a notice of loss due to an April freeze. A NAU field review determined the producer's wheat crop was a volunteer crop and uninsurable. The field appeared not to have been farmed during the 2009 crop year, and old stubble showed no signs of having been disked or disturbed since the 2008 crop year harvest. The producer could not provide any receipts for seed purchase or otherwise prove that he had planted the field. NAU revised the policy to remove the liability, and made no premium changes on the acres. The producer made false statements regarding this volunteer wheat crop by: 1) signing an acreage and production report; 2) submitting a notice of damage and loss in order to collect an improper indemnity payment; and 3) not providing documentation to substantiate the crop was planted.

On September 24, 2010, A&L filed a Complaint with the Office of Administrative Law Judges for the assessment of a civil fine and disqualification of the producer, under section 515(h) of the Federal Crop Insurance Act (7 U.S.C. § 1501, et seq). The Complaint requests a two year disqualification and a civil fine of $3,000.

Supplemental Revenue Assistance Program (SURE) Referrals
Since FSA relies on crop insurance program data to calculate payments under SURE, FSA is in a position to discover reporting discrepancies while reviewing producer applications. As of November 9, 2010, the regional Compliance Offices have received 3,104 SURE referrals from FSA, nearly 1,100 more than was reported to the Board in the September 2010 report. Compliance began receiving 2008 crop year SURE program referrals from FSA in January 2010. Compliance anticipates that entity, reported acreage, and production discrepancies will constitute the majority of the referrals similar to our experience with the Crop Disaster Program.

Current Crop Disaster Program (CDP) Referrals
RMA Compliance continues to work to resolve the 6,761 CDP referrals received to date from Farm Service Agency offices. About half of these referrals result from policyholders reporting one entity to RMA and another to FSA. These referrals are the result of FSA identifying discrepancies noted between downloaded 2005, 2006, and 2007 crop year insurance data and data certified for farm programs at FSA.

INSURANCE SERVICES UPDATE:
Reinsurance Services Division:
Plans of Operations: The Reinsurance Services Division (RSD) finalized its annual financial and operational review of the 2011 plans of operations and approved 16 companies for a Standard Reinsurance Agreement and 10 companies for a Livestock Price Reinsurance Agreement.

Risk Management Education:
Partnership Agreements: In 2010 RMA has awarded $9.6 million in Partnership Agreements to provide producers with opportunities to learn more about managing risks in their businesses. The education arising from the agreements provides an important educational opportunity for limited-resource and underserved farmers and ranchers. The Federal crop insurance program and Risk Management Education and Outreach programs together provide a safety net to ensure that farmers and ranchers will weather the perils of nature and the marketplace and continue in business, thus ensuring the food supply and the survival of small, limited resource, socially disadvantaged and other traditionally under-served farmers. RMA administers these partnership projects as well as the Federal crop insurance program, with funding and authority from the Federal Crop Insurance Act. Detailed information about partnership agreements may be found at http://www.rma.usda.gov/aboutrma/agreements/
on the RMA website. The new partnership agreements include:

- **Crop Insurance Education in Targeted States:** $5 million is being awarded to deliver crop insurance education and information to agricultural producers in 16 states designated as historically underserved with respect to crop insurance. These targeted states include: Connecticut, Delaware, Hawaii, Maine, Maryland, Massachusetts, Nevada, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, Utah, Vermont, West Virginia, and Wyoming.

- **Commodity Partnerships for Small Agricultural Risk Management Education Sessions:** $1 million is being awarded to fund 110 commodity Partnership Agreements across the country, delivering training to U.S. farmers and ranchers in managing production, marketing, and financial risk, such as the award to Annie's Project in Illinois, called "Education for Farm Women." The program gives priority to educating producers of crops currently not insured under Federal crop insurance, specialty crops, and underserved commodities, including livestock and forage.

- **Community Outreach and Assistance Partnerships:** USDA is awarding $3.6 million for collaborative outreach and assistance programs, such as the $100,000 award to provide emerging risk management tools to returning veterans to support successful farming. This partnership category targets limited resource, socially disadvantaged and other traditionally under-served farmers and ranchers, who produce priority commodities.

Barley Growers: Barley growers petition to change the barley pricing mechanism for barley yield and revenue crop insurance policies: Spokane RO reports that barley industry representatives and producers have requested that RMA consider changes to the projected price under the Feed Barley Commodity Exchange Price Provisions document. Currently the Chicago Board of Trade (CBOT) Corn price is factored by a relationship of National Agricultural Statistics Service (NASS) Barley to CBOT corn to arrive at the projected feed barley price. The barley growers have argued the correlation used by RMA negatively impacts barley prices and have asked RMA to consider other options. The barley industry requests a conversion factor that is a fair and accurate representation of the price relationship between corn and barley in the actual marketplace. They feel change is necessary to ensure RMA meets the overwhelming public interest of providing a level playing field between competing crops and to prevent government incentives that shift acreage from one crop to another based on better risk management tools. Under the current pricing scenario, wheat, corn and soybeans (in their opinion) will offer more attractive risk management tools, than barley, which causes lenders and growers to move acreage into these crops at the expense of barley. The Spokane and Billings Regional Offices are working with the barley industry representatives in the two regions to determine whether a better correlation can be recommended. The National Barley growers met with RMA's Administrator on this issue in September.

California Wine Grapes: The Davis RO reports that a cool summer along the West Coast has made for a hurried harvest in the nation's top winemaking regions as growers rush to beat the first frost. With less exposure to sun and heat, the grapes will have less sugar and produce wines with less alcohol. Wines from France, Italy and Spain -- the leading wine producing countries -- have average alcohol levels of 12 to 13 percent. Most New World wines - those coming out of the U.S., Chile and Australia - tend to have slightly higher alcohol levels, about 14 to 15 percent. But this year, the wines coming from California, Oregon and Washington may be different because the grapes have taken longer to ripen. White wines from this year's crop are expected to be ready in nine months to a year, while reds will take about two to four years, depending on type. The harvest in California's Napa Valley also is running about three weeks behind after workers waited for the grapes to ripen. Some growers said they were bringing in extra help to move the harvest along. The same was true along the California coast. About 90 percent of the wine made in the U.S. comes from California, which grows about 3 million tons of grapes each year and produces more than 2.3 billion bottles of wine, according to the California Department of Food and Agriculture.

Citrus Psyllid – The Davis RO reports that five Asian citrus psyllids were recently detected in traps in Orange County, California. The detections will trigger quarantine by the State. The California Department of Food and Agriculture will restrict movement of regulated plant material, including host plants, at wholesale and retail nurseries within five miles of the find site until the quarantine can be established. The pest can carry the disease huanglongbing (HLB). All citrus and closely related species are susceptible hosts for the insect and the disease. There is no cure once a tree becomes infected. The diseased tree will decline in health until it dies. HLB has not been detected on trees in California and the agricultural communities are working hard to make sure the disease stays out of California.

Thompson Seedless Price –The Davis RO reports that a Gallo price quote of $190 spread quickly throughout the San Joaquin Valley. If growers do not accept the Gallo price, they must make raisins from the Thompson seedless grapes. E&J Gallo is the world's largest winery with production of nearly 900 million bottles per year. Gallo crushes more than 50 percent of the grapes crushed annually in California. The low Gallo price could have a major impact on raisin production, diverting 100,000 green tons of Thompsons to raisins. Although the raisin industry is coming off a record 350,000 ton shipment year, Gallo's price offering could have a major impact on the 2010-2011 raisin marketing year at a time when the industry is on the upswing in sales and prices to growers.

Harvest: The St. Paul RO reports that all three states in its Region are expected to have large grain yields, with minimal insurance losses. A small concern in the region is storage. Whether it is on-farm or off-farm storage, some farmers are having trouble finding places to put their grain.

This may be a result of high yields, high commodity prices, or river barge traffic being closed for two weeks due to flooding, thus creating a greater demand for rail cars.

Regional Flood Damaged Grain Concerns: In early October, flooding concerns in the St. Paul RO region were identified in local news articles. The concerns referred to flood damaged corn and soybeans. According to the Food and Drug Administration, if flood waters covered the ear or pod, the grain is adulterated. RMA issued Informational Memorandum #IS-10-008, which provided responses to many questions raised by producers.

IOWA: Fifty-two percent of the state's crop condition is rating good to excellent.
Corn: Eighty-six percent of the crop has been harvested. Moisture content of harvested corn is estimated at 14 percent and harvest is ahead of the five-year average by 25 days.
Soybeans: Ninety-seven percent of the crop has been harvested and harvest is ahead of the five-year average by 19 days.

MINNESOTA: Eighty-eight percent of the state's crop condition is rating good to excellent.
Corn: Seventy-seven percent of the crop has been harvested. The moisture content of harvested corn is estimated at 14 percent and the harvest is ahead of the five-year average by 36percent.
Soybeans: Ninety-nine percent of the crop has been harvested. The harvest is ahead of the five-year average by 16%. **Sunflowers:** Ninety-one percent of the crop is harvested. **Sugar Beets:** Ninety-nine percent of the crop is harvested.

WISCONSIN: Eighty-six percent of the state's crop condition is rating good to excellent.
Corn: Sixty-six percent of the crop has been harvested; harvest is ahead of the five-year average by thirty-five percent. **Soybeans:** Ninety-five percent of the crop has been harvested, and the harvest is ahead of the five-year average by 32percent.

Prairie Pothole National Priority Area: Billings RO, St. Paul RO and the Risk Management Services Division have worked together on Prevented Planting issues. Areas in North and South Dakota, Montana, Minnesota and Iowa, located specifically in the Prairie Pothole Region, are continually wet and may only be planted in the driest of years. These areas would not be considered "available for planting" due to the wetter climate experienced over the last 17 years. Producers in the Prairie Pothole Region can no longer plant acreage (once farmed in the 1970's and 1980's) during a normal planting season. The potholes are full of water and the surrounding acreage has turned into marshes or wetlands that can only be cultivated in the late summer or fall. In most years these areas are too wet to plant in the spring; therefore, discussion is underway about whether this land is eligible for prevented planting coverage.

On March 30, 2010, RMA hosted an informational meeting in Fargo, North Dakota, on prevented planting crop insurance coverage. The meeting was well attended by crop insurance companies doing business in both North and South Dakota. The meeting addressed concerns raised by producers, Congressional offices, agents and crop insurance companies regarding the consistent delivery of the Federal crop insurance policy and procedures relative to prevented planting coverage in the area. The St. Paul Regional Office, together with the Billings Regional Office, will host a listening session in Fargo, North Dakota on November 17 regarding prevented planting. This topic will also be covered in meetings in St Paul, Minnesota on November 23 and

Des Moines, Iowa on November 30th.
RMA is emphasizing the intent of the prevented planting policy language which will primarily impact producers that have not been able to plant acreage for several years because it is no longer physically available to plant in the spring. Some insured producers are concerned about these changes and how it will affect them.

On Sept. 29, Rep. Herseth-Sandlin introduced legislation (H.R. 6338) that would allow producers to plant a second crop and receive full prevented planting payments if the producer owns livestock, is prevented from planting due to high moisture, and uses the second crop solely for emergency feed for his or her livestock. Additionally, the second crop would not be considered a crop of record unless the producer elects it. Senator Tim Johnson introduced similar legislation (S. 3870) in the Senate on the same day.

Double Cropping: RMA has received numerous inquiries from policyholders, Members of the Congress, commodity groups and from Southeastern grain producers, regarding policy provisions that limit the number of acres for which two full indemnity payments may be made to the number of acres for which the producer provides records of double-cropped acreage and production. The concerns are that this limitation unnecessarily increases risk exposure for beginning farmers and farmers who intend to double-crop acreage added to their farming operation or added into crop production due to an expiring Conservation Reserve Program contract. Producers have asked RMA to recognize the long-standing history of double-cropping practices by allowing full coverage on planted acreage of both crops in growing areas where the practice is a recognized farming practice.

A producer may receive full indemnity payments on two or more crops planted for harvest in the same crop year if each of the following conditions is met:
1) There is an established practice of planting two or more crops for harvest in the same crop year in the area, as determined by the Corporation;

2) An additional coverage policy or plan of insurance is offered with respect to the agricultural commodities planted on the same acreage for harvest in the same crop year in the area;

3) The producer has a history of planting two or more crops for harvest in the same crop year or the applicable acreage has historically had two or more crops planted for harvest in the same crop year; and,

4) The second or more crops are customarily planted after the first crop for harvest on the same acreage in the same year in the area.

RMA is reviewing the issue and will explore every available option. It appears that providing separate production evidence on a field-by-field basis may be the most significant issue facing Southeastern growers due to the fact so many of their fields are smaller and keeping records for 0.5 – 5.0 acre fields is difficult and time-consuming. RMA is currently reviewing whether existing procedures may allow pro-rating such production to the acreage from where the crop was harvested. Such procedures must not increase risks to the program, and not conflict with existing provisions of the Act or the Basic Provisions.