

CROP INSURANCE NEWSLETTER

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COURTESY OF J. T. DAVIS INSURANCE AGENCY, INC.

2006 Hurricane Predictions

Just days after the official close of the busiest Atlantic hurricane season on record and with one hurricane still churning in the Atlantic, the first 2006 forecast is out already. To the surprise of no one it predicts an active season.

"We foresee another very active Atlantic basin tropical cyclone season in 2006" states a report from a team including long-time forecasting guru William Gray of Colorado State University.

This year, which was supposed to end November 30th, brought a record four major hurricanes ashore in the United States. At the writing of this newsletter, January 4, 2006, Hurricane Epsilon was active in the Atlantic.

The 2006 forecast calls for:

17 named tropical storms; an average season has 9.6

9 hurricanes; compares to an average of 5.9

5 major hurricanes with winds exceeding 110 MPH; average 2.3

The current series of busy seasons is part of a long-term cycle called the Cape Verde Hurricane Cycle that climatologists predicted years ago. The Atlantic is in its 11th year of heightened activity. It is expected to "continue for the next decade or perhaps longer", said officials with the National Weather Service last week.

If we are located very far inland, we tend to get lulled into a false sense of security that hurricanes are not a direct threat.

Remember, more hurricane damage occurs from water than wind. Hurricanes tend to stall as they move inland. This provides the opportunity to dump unbelievable amounts of rain in a short period of time. Too much water or flooding can destroy your crops.

Start planning now by making sure all of your crops are insured. Protect your investment.

Importance of Reporting Information Accurately

As a reminder, provisions were put into the 2005 common policy which provide penalties if information is reported incorrectly. These penalties are in effect for 2005 and subsequent crop years.

This penalty is referred to as the Misreported Information Factor (MIF). In the next paragraph, I have included the exact language from the Crop Insurance Handbook (CIH) which states the penalty and how it works.

Misreported Information Factor (MIF). *If an insured under or over-reports (misreports information used to determine the liability) by more than 10 percent (the reported liability is less than 90 percent or greater than 110 percent of the correct liability):*

Any indemnity, prevented planting payment and/or replant payment will be reduced in proportion to the amount of liability misreported in excess of the tolerance. For example:

1) *The reported liability is \$12,250 and the correct liability is \$10,000.*

$\$12,250/\$10,000 = 1.225000$ (the

insured over-reported 22.5 percent.) The indemnity will be reduced by 12.5 percent (1.225000 - 1.100000 = .125000).

The misreported information factor is .875000 (1.000000 - .125000).

2) *The reported liability is \$8,200 and the correct liability is \$10,000.*

$\$8,200/\$10,000 = .820000$ (the insured under-reported 18.0 percent.) *The indemnity will be reduced by 8.0 percent (.900000 - .820000 = .080000). The misreported information factor is .920000 (1.000000 - .080000).*

Examples of information misreported that could apply the penalty are:

-number of acres reported by unit are incorrect

-production

-share

One way to improve upon accuracy of information reported is the use of the 578 Producer Print (578 PP) from FSA.

As our information and FSA information should match we ask you to do the following:

1) submit acreage report to FSA first

2) retain copy of 578 PP and review to make sure all information is correct

-acres planted

-plant dates

-share arrangement

-tax ID numbers

Review all acreage report information on 578 Producer Print for accuracy before sending to us. This includes:

- Total acres by FSN

- Plant date

- Share arrangement

We will then enter your acreage from the information you submitted.

If we take acreage report by phone or from 578 Producer Print, you will be mailed an Acreage Report Letter along with your summary of coverage which states you have to make all changes or correction by Acreage Report Date. Any changes after Acreage Report Date are subject to approval by company.

Adjuster Gross Revenue-Lite

A Whole Farm Revenue Risk Management Tool

AGR-Lite is a streamlined whole-farm revenue protection program. 2006 is the first year it is offered in Virginia.

This program is ????? and works well for producers of crops and commodities that there is no traditional coverage for, such as most specialty crops.

The program is based on the 5-year average of selected revenue reported on IRS Schedule F 1040 or equivalent tax forms, therefore, minimal additional record keeping is required.

Protection

AGR-Lite provides protection against low revenue due to unavoidable causes. Covered farm revenue includes income from almost all crops and agricultural commodities including animals and animal products such as milk, aquaculture products grown in a controlled environment, and greenhouse production. The value of any crop production fed to animals is counted as animal income.

Eligibility Requirements

Basic eligibility requirements include having:

1. Five consecutive years of IRS Schedule F 1040 records (or same information from other tax forms) for the same tax entity for the past five years (unless at least 90 percent of a previous farming operation was transferred to the current tax entity). These records must be available for inspection.
2. Average annual adjusted gross revenue of \$2,051,282 or less (\$1,000,000 max. policy liability).
3. Not more than 50% of allowable income from ag commodities purchased for resale, and
4. Expected potato revenue not to exceed 83.35% of the total revenue.

Insured Causes of Loss

Insurance is provided against loss of revenue due to any unavoidable natural occurrences, including but not limited to, adverse weather, fire, insects, disease, wildlife, earthquake, volcanic eruption, or failure of irrigation water supply, if applicable, that causes production losses that occur during the current or previous insurance year or market fluctuation that cause a loss of revenue during the current insurance year.

Coverage Choices

Protection is calculated by multiplying the approved adjusted gross revenue (AGR) by the coverage level and payment rate percentage selected at the time of enrollment. Choices are:

- *65% Coverage Level with the 75% or 90% Payment Rate

- *75% Coverage Level with the 75% or 90% Payment Rate
- *80% Coverage Level with the 75% or 90% Payment Rate

Policy Entity Information

The very first steps toward making sure you are properly insured is to make sure the policy name and tax I.D. number are correct and up to date.

This means how your crops are insured, how they are sold, and how they are recorded at FSA should be one and the same.

Agricultural Risk Protection Act (ARPA) requires the "Federal Crop Insurance Corporation (FCIC) and the Farm Service Agency (FSA) must reconcile all relevant information received by the corporation or FSA for a producer who receives crop insurance coverage." Bottom line, make sure policy name and tax I.D. are the same as recorded at FSA.

Occasionally, insured entity types do change - marital status changes, an individual creates a partnership, corporation, officers added to a corporation, etc. Any change which involves a social security number or tax I.D. number must be reported to us immediately and likewise to FSA. How you trade is how you should report.

Failure to make timely changes could result in program benefits being denied

Features of the Crop

Insurance Program

- 60% option to remove low yields

- A process has been implemented to allow farmers the option of dropping low yields from the APH database by inserting 60% of the county average yield into the database. This process helps keep your average yield up and provides a soft landing particularly in multi year loss situations.

- 10% cup protector

- Your average yield cannot be reduced more than 10% in a given year even if your production is 0 for that year

- Yield floor protector

- Depending on the number of years you have been growing a particular crop, your average yield **cannot drop below 80%** of county "T" yield.

- Prevented Plant Payments

- Crops such as corn, soybeans, grain sorghum, wheat, barley, cotton, and peanuts are covered which means you could be eligible for a payment (up to 70% of your guarantee, with buy-up) should you be prevented from planting your crop due to a weather related problem (drought or excess moisture). No crops other than acceptable cover crops may be planted in the fields on which prevented planting payments are made unless double cropping history can be proved.

In order to qualify for a prevented

Our intentions at loss time are to get the losses worked as timely as possible and at the same time not disrupt your harvest schedule.

planting payment you must notify us within 72 hours after the **final planting date** if you do not intend to plant the insured crop during the late planting period or if late planting period is not available. If you intend to plant within the late planting period you must notify us within 72 hours after the **late planting period**.

-Replant

- Should you have to replant due to an insurable cause you will be reimbursed for replant cost and you will keep your full guarantee. Replant payments are available for most crops.

The above features of the program are designed to keep your guarantee and yields higher.

Your Duties When a Loss Occurs

Report all losses immediately.

Policy provisions state you need to **notify us** at least **15 days prior to or during harvest** and **leave representative samples** of the unharvested crop for an adjuster to inspect.

As requirements for each crop are different, refer to your policy for definition of representative samples or call us and we will be glad to go over with you.

In the case of flue-cured tobacco & cotton, a stalk inspection will have to be made after harvest is complete.

E-Business

Did you know you can access all your policy information online?

Fresh market tomato & pepper claims require a post harvest inspection before the crop can be destroyed.

Should the current crop be used for a purpose other than originally intended, such as soybeans for hay rather than for grain, leave field samples for appraisal. Notify us so appraisal can be made.

Corn CRC to be chopped **for silage** - **an appraisal must be made if you are anticipating a loss**. Call us and we will go over your trigger point for a loss.

Be sure production is kept separate by unit according to your insurance contract.

Acceptable records at loss time are normally sale receipts for what has been sold.

Field harvest records such as wagon/truck loads **can only be used with prior adjuster approval**.

Do not co-mingle production from loss units with other units before getting permission from adjuster.

In cases where the adjuster volume of losses will not allow him to do pre-measurement timely then the company may waive this requirement.

Any pre-measurement waivers will have to be handled on a case by case basis. The assigned adjuster will work closely with you.

That's right, you can view your policy levels, reporting and planting dates, production information, as well as billing

dates and amounts, and claims status. You can also print forms or send us e-mail. You can even sign up for Direct Deposit of loss payments which will get your funds to you without mail or bank delays. You will also be able to read current agricultural news and check the weather forecast in your area.

It's all very simple!! Just go to our website at www.jtdavisins.com and click on the RCIS Ag link. On your first visit you will need to register to activate your online account access and create a password. So make sure you have your tax ID number available. Call or e-mail us if you have any questions.

Revenue Products

How you manage your risks with grain crops can mean the difference in whether or not a profit is realized.

You should include commodity program payments as provided by FSA in planning for profitability.

Forward contracting allows you to lock in higher prices. Farmers are forming marketing clubs which allows them to focus as a group on a number of marketing opportunities.

Crop Insurance offers revenue products as a means to allow you to forward contract more of your crops.

Revenue products are gaining popularity as they provide

protection against a loss of revenue caused by price fluctuation (either lower or higher than base prices) low yields, or a combination of the two. Moreover, you don't necessarily have to experience a production loss in order to trigger a payment.

Regular Multi Peril Crop Insurance (MPCI) provides protection only against yield losses.

The traditional revenue product has been Crop Revenue Coverage (CRC). More information on CRC is included in the next article of this newsletter. Track records for revenue products have been good in the past because of volatile price swings, both up and down.

Revenue Assurance (RA) will now be available for corn and soybeans in certain areas.

RA and CRC are very similar in coverage with only subtle difference. The main area we'll watch is the price rating. We won't be able to fully evaluate until revenue prices are released in early February for North Carolina and South Carolina. Price for other states will be released early March.

So stay tuned. Once all the data is in we will determine which product, MPCI, CRC, or RA is best for you.

Digital Mapping/FSA

FSA, nationwide, is converting to a Global Imaging System (GIS) based mapping program which will prove to have many advantages.

The new computer generated map is a lot more "farmer friendly" in the sense that clarity is much better. Descriptors can be entered which can identify a landmark. By doing so, maps become easier to work with. In addition, maps can be printed in color which enhances the clarity even more.

You should request a new aerial photo of all farms in your operation and keep on file for your future reference.

We can, upon your request, provide you with a date calendar which will serve as a reference guide for all important dates.

Tobacco

All types of tobacco, as of 2005, have been converted to an Actual Production History (APH) plan. Tobacco now falls into a category B crop which includes such traditional crops as corn, soybeans, wheat, etc.

This means you will be responsible for reporting your production each year. Production should be reported by FSN if you are insuring by FSN. A production reporting form was mailed to each insured last fall. If you have not returned this form please complete and return as soon as possible so information can be updated. This is very important as your guarantee and premium is based upon this updated information.

Flue cured tobacco will continue to use your tobacco classification (T-class) as taken from actuarial

in your database along with actual yields until four years of actual data is compiled. Once four years of actual yields are recorded then database will build to a ten year running history.

Burley tobacco was set up in 2005 using four years of actual or assigned yields. This data will continue to build each year into a ten year running history. Database is figured on actual production yet your guarantee is converted into a dollar guarantee as the old system worked. It is our understanding that in 2007 guarantee will be in pounds, as other types of tobacco are now, rather than dollars.

Keeping tobacco separate by FSN, if you elect to insure by FSN, is new to you as prior to 2005 all production was tracked by marketing card. This process will involve your marking by each bale on sales bill the FSN, unit number, or farm name as listed on your schedule of insurance. This provides a method for adjusters to track production back to summary of coverage when a loss occurs. By marking sales bills this also provides the same tracking mechanism should your database ever come under audit.

Remember, if sales bills are not marked then the adjuster will have to work loss as commingled production where all units that are commingled will have to be combined.

You will be allowed the same yield protectors; 60% T-Yield plug, 10% Cup, and a Yield Floor, as

other Category B crops, when calculating future yields. These options are explained more in detail under **(Features of the Crop Insurance Program - page)** This system works well for other APH crops.

Pre-measurement of Acreage

Adds provisions allowing procedures to revise the number of acres reported on the acreage report when acreage measurement occurs after the acreage report date.

In order to qualify, you must provide us estimated acres prior to acreage report deadline and inform us that a pre-measurement service has been requested from a bonafide source such as FSA, or other qualified and/or certified measuring services.

You will have 40 days after acreage reporting to update your acreage report.

One way to assure you are within tolerance is to have acreage pre-measured. FSA services are provided for a very reasonable fee.

Written Agreement to Insure Burley Tobacco

Many producers who have not traditionally grown burley tobacco are beginning to look at growing burley as part of their farming operation.

If you are a new producer of burley in a county where burley has not been traditionally grown we can insure your crop through a Written Agreement.

A written agreement request must be submitted by us no later than cancellation date March 15, 2006. As certain information has to be obtained from FSA, contact us now so we can get the process started.

Producers who insured their burley tobacco through written agreement last year will soon be receiving information from us to sign and return.

Plan now to insure your burley for 2006.

Fresh Market Tomato Program Expanded

The Fresh Market Tomato Program has been expanded in Tennessee to the following counties:

Bledsoe
Cocke
Grainger
Greene
Hamblin
Rhea
Washington

Anyone interested in coverage in the above counties must contact us before sales closing - March 15, 2006.

Crop-Hail

Hail - a year's worth of work can disappear in 5 minutes. Moreover, hail is the one catastrophe that is most likely to totally destroy a part of your crop and leave the rest looking fine. The part hail takes out may well be less than the deductible of your Multiple Peril Crop Insurance policy.

Crop-hail insurance can fill that gap. A combination of a MPCl policy and a crop hail add on is the only way to cover the total value of your crop. We can also provide a wind endorsement which changes your crop hail policy to a storm coverage policy. The coverage becomes effective on the second day following the signing of the application by you and the agent.

Once liability capacity is reached by a company for a given county then no more applications can be accepted. So **write your crop hail policy early** this season as capacities for all companies will be limited.

Better yet, sign up for crop hail continuous coverage - Auto Crop Schedule (ACS). Your acreage will be determined from your Multi Peril policy acreage report.

Your crop, each year, will be covered at the same liability as the previous year. There are provisions which will allow you to adjust coverage per acre, change endorsements, and/or cancel for that particular crop year by certain dates.

RCIS now requires **supporting MPCl business** at least at the CAT level through our agency or another RCIS agent for you **to be eligible to write a crop hail policy**. MPCl policy must be in place by sales closing.

A Time for Changes

Sales closing for all spring crops in VA, TN, & WV is March 15, 2006. NC and SC sales closing is February 28, 2006.

Sales closing for fall crops is September 30.

What does this mean for you? It's time to review the information on your crop insurance policies.

You may want to give us a call to go over what crops and counties you currently have on your policy.

Producers who have picked up a new farm or anyone who is adding another county or crop should notify us as soon as the information is available to you so we can keep your policy up to date.

With the higher premium subsidies and added features of the program, **now** is the time to **insure all** your crops at a very **affordable cost** per acre - literally pennies in cases.

Any changes to your policy must be completed by sales closing.

The higher the level of coverage:

- The better the protection
- The more the Federal Government pays of your total premium.