

# CROP INSURANCE NEWSLETTER

VOLUME 15 No. 1

SPRING 2008

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

## Increase in Price Election for 2008 Crops

**Good News!** Price elections for crop year 2008 are up for all crops with the exception of one. A chart at the end of this article shows price comparison, '07, '08 and percent change, for individual crops.

For revenue plans, CRC and RA, final prices will not be issued until mid February for 2/28 sales closing and March 1 for 3/15 sales closing.

Given the positive futures outlook for traditional crops such as corn, soybeans, and wheat; revenue products final prices should show a very positive gain as well. Traditionally, revenue price elections have been higher than price elections for guaranteed production plans.

Most of the positive outlook for grain crops is driven by two factors, alternative fuel and export demands.

Commodity experts are predicting prices to be favorable for an extended period of time. According to Jonah Bowles, Ag Risk Management Coordinator with Virginia Farm Bureau, "The improved demand to satisfy bio-fuel production should support prices. The price relationship between corn and ethanol, and soybeans and bio-diesel have changed dramatically recently and promise to continue being erratic in months ahead.

High Prices have high costs of production - a small drop in commodity prices could be devastating to producers as costs will not immediately follow. Also, the exposure and change in price direction could be quick when the time comes. The astute producer will use the current situation to insure the attractive prices - some going all the way into 2010. **Revenue crop insurance products are one means that growers have that can complement marketing plans.** The producer who understands the need for price risk management will benefit from a much improved financial position with limited exposure to adverse price moves - which will come at some point in time." Higher price elections mean better protection for you. An enhanced guarantee always looks

attractive to a lender. Higher guarantees also allow you to be in a position to forward contract more of your crop should you choose to use this type of marketing.

	2007 PRICE	2008 PRICE	%
CROP	ELECTION	ELECTION	CHANGE
BARLEY	\$2.20	\$2.80	+ 27%
BURLEY TOBACCO	\$1.62	\$1.75	+ 8%
CORN SILAGE	\$30.50	\$40.50	+ 33%
CORN - APH	\$3.30	\$4.75	+ 44%
CORN - CRC (NC & SC)	\$3.76	\$4.78	+ 27%
CORN - CRC & RA (TN,VA,WV)	\$4.06	\$4.94*	+ 22%
CORN - RA (NC)	\$3.97	\$4.94*	+ 24%
COTTON	\$0.53	\$0.68	+ 28%
COTTON-CRC	\$0.59	\$0.80*	+ 35%
DARK TOBACCO	\$1.98	\$1.50**	- 24%
FLUE TOBACCO	\$1.52	\$1.60	+ 5%
FRESH MARKET TOMATOES	\$4.75 - TN	\$5.30 - TN	+ 12%
	\$4.10 - VA	\$4.35 - VA	+ 6%
GRAIN SORGHUM	\$3.10	\$4.45	+ 44%
OATS	\$1.80	\$2.25	+ 25%
PEANUTS	\$0.19	\$0.205	+ 8%
POTATOES	\$9.30	\$9.55	+ 3%
SOYBEANS-APH	\$6.50	\$11.50	+ 78%
SOYBEANS-CRC (NC & SC)	\$7.11	\$11.85	+ 66%
SOYBEANS-CRC & RA(TN,VA,WV)	\$8.09	\$11.84*	+ 46%
SOYBEANS - RA (NC)	\$7.94	\$11.84*	+ 49%
WHEAT - CRC	\$4.35	\$5.93	+ 36%
WHEAT	\$3.90	\$4.90	+ 26%

\* *These prices are currently tracking and are not final.*

\*\* *We are currently working with RMA to get this price back up to the 2007 Price election of \$1.98. I feel this will be accomplished.*

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When Price elections increase, premium will increase proportionately yet the premium rate remains the same.

A natural reaction to increased premiums would be - Should I reduce my coverage level? I posed this question to two Agriculture Risk Management Specialists to get their comments.

The first comment comes from Dr. Art Barnaby, Extension Specialist, Risk Management, Kansas State University. Art has been instrumental in designing revenue products for the Federal Crop Insurance Corporation. Art's comments are **"No. Avoid that temptation.** If your past coverage level was the correct choice a year ago it is the correct choice today. It is equivalent of trading in a Ford for a new Cadillac then you want to cut the coverage of the Cadillac back to the value of the Ford. **Cutting coverage makes no sense to me. You have an asset here of a growing crop that is worth approximately twice what it was worth 2 years ago.** In fact, the converse could be true. One may want to increase coverage - but be careful as the subsidy level shrinks at higher levels of coverage."

The second comment comes from Jonah Bowles. "Many agricultural prices are trading considerable higher than one year ago and the cost to insure the crops are higher also. There may be the tendency for the producer to lower his cost

of crop insurance by changing the coverage level, or changing away from a revenue product. I strongly discourage either of these for two reasons - (1) that would leave a greater portion of an improved asset at risk should price or yield drop, and (2) the cost of producing these products has also gone much higher which exposes the grower to a more leveraged risk if prices or yield drop. **Lowering crop insurance coverage could have a devastating impact on profits in 2008 if prices and/or yield drop-even just a little."**

**On average, a producer would receive about 25% less in loss payments if he chose to reduce coverage from 70% to 65% level.**

## 2007 - Record Year for Crop Losses

Just when you thought it could not get any worse along came 2007. 2007 will set an all-time record for crop losses due to the excessive heat and drought conditions experienced throughout the Southeast.

Prior to 2007, 2003 was the highest loss year on record. Ironically 2003's losses were mainly attributed to excessive precipitation - a year of record rainfall in some areas for the agricultural growing season.

The prior year 2002, with losses attributed to drought, had held the record before 2003.

**six years, three have set successive records for crop losses** - 2002 & 2007 for drought and 2003 for excessive precipitation. I think it is safe to say that we are in a very volatile weather cycle. Moreover, weather experts say to expect more of the abnormal to be the normal.

## Crop Insurance Required for Crop Disaster Payments

On May 27, 2007, President Bush signed into law a bill that provides disaster assistance to producers who suffered a loss in 2005, 2006, or 2007 for crops planted or prevented from planting up to February 28, 2007. President Bush, on December 26, 2007 signed an amendment which extends the 2007 crop year to include the entire year.

As a requirement to qualify for a payment through the Farm Service Agency (FSA), **only producers who obtained crop insurance coverage will be eligible for a Crop Disaster Payment (CDP).** I am told that this will be a requirement in the future, as well, when disaster declarations are declared. If you have already signed up for disaster aid at FSA using 2005 or 2006, and 2007 was your greatest loss year of 2005, 2006, & 2007, you need to go back to FSA and reapply.

Bottom line, **out of the past**

# “OUR BUSINESS IS KEEPING YOU IN BUSINESS”

## Agricultural Baseline Projections: U.S. Crops, 2007-2016

The following article excerpts were taken from a recent USDA Economic Research Service Article.

Strong expansion of corn-based ethanol production in the projections affects virtually every aspect of the field crops sector, ranging from domestic demand and exports to prices and the allocation of acreage among crops. Additionally, steady global economic growth assumed in the projections provide a favorable setting for other uses of field crops, which, following the initially large ethanol expansion, supports longer run increases in consumption and trade and **keeps prices at historically high levels.**

- Corn prices rise sharply through 2009/10 as increases in ethanol production strengthens corn demand. In the longer run, higher acreage and gains in yields are sufficient to meet slower ethanol production gains and moderate export growth, resulting in rising stocks-to-use ratios and falling prices for corn. Nonetheless, **corn prices remain high.**

- Soybeans - Acreage reductions for soybeans and declines in stocks from initially large levels lead to large **soybean price increases through the early years of the projections.** In the longer run, soybean prices are projected to fall back somewhat due to supply response in South America.
- **Wheat prices are held high in the early years of the projections** despite somewhat higher production as higher corn prices support wheat prices by encouraging increased wheat feed use. **Later in the projections, wheat exports increase moderately, lowering the stocks-to-use ratio and raising wheat prices further.**

In summary, prices for traditional crops such as corn, soybeans, and wheat remain favorable for the next ten years due to high demand.

## Tobacco

As most of you are aware, the Federal Crop Insurance Corporation (FCIC) is proposing to rewrite and combine all tobacco types into one policy.

A new policy has to be issued as a lot of the language is now outdated due to changes brought about by the Tobacco Quota Buyout of 2004. Albeit,

you will continue to have a tobacco crop insurance policy and program. The new policy, when issued, will not go into effect before 2009, at the earliest.

Comment period on the new proposed policy ended on July 23, 2007. I had the opportunity to work with a number of grower organizations and individuals in a number of tobacco states on this issue. I also had an opportunity to present the proposed changes at a growers meeting in North Carolina where Congressman Bob Ethridge, Chairman of House Agricultural Subcommittee on General Farm Commodities and Risk Management, was present.

We have worked diligently to assure that you, the tobacco grower, will be treated fairly and equitably as any producer of another crop.

We will be informing you, in the future, of any changes to the current policy.

## Written Agreement To Insure Burley Tobacco

Many producers who have not traditionally grown burley tobacco are adding 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 provided you have three years of experience growing any type of tobacco.

A written agreement request must be submitted by us no

later than sales closing date, March 15, 2008. 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 a written agreement last year will soon be receiving information from us to sign and return.

We are being told by RMA that actuarial data for nontraditional burley counties may be available for the 2009 crop year. Once in place, written agreements will no longer be needed.

If you are considering a burley crop for '08 give us a call to see what needs to be done to insure your crop.

Plan now to insure your burley for 2008.

## Livestock Risk Protection Coverage

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.

## 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.

Livestock Risk Protection is now available for cattle, lamb and swine producers in Virginia and West Virginia.

There have been 5,146 policies for the 2008 reinsurance year sold to date.

Payout to date has been in excess of \$7.5 million to livestock producers.

Feed cost is the main driving factor for this trend. December 2008 corn was trading recently at \$5.27/bu and has been on a steady climb since early October when it was trading at \$3.85/bu.

Comments by Jonah Bowles: Good news for grain producers cannot be good news for livestock growers. **Higher feed prices will continue to put pressure on livestock prices going forward. Cattle producers who are concerned about an adverse market move should consider Livestock Risk**

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**

**Protection crop insurance** - a new risk management tool in our area that can be tailored to individual livestock operations. Feeder cattle future prices have been dropping steadily since mid-October as shown on the chart below

## Adjusted Gross Revenue-Lite

### *A Whole Farm Revenue Risk Management Tool*

AGR-Lite is a streamlined whole-farm revenue protection program. Program was introduced into Virginia, North Carolina, West Virginia in 2006 and is **now available in Tennessee and South Carolina for the 2008 crop year.**

This program is designed, and works well, for producers of crops and commodities where there is no traditional coverage, such as most vegetable crops.

**reduced in proportion to the amount of liability misreported in excess of the tolerance.**

Examples of information misreported that could apply the penalty are:

- number of acres reported by unit are incorrect
- production history (APH) incorrect

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

**3) Make crop report to us from 578 PP**

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 any changes or corrections by Acreage Report Date. Any changes after Acreage Report Date are subject to approval by company.

or corrections could result in program benefits being reduced or denied.

## 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. In certain cases receipts may not match crop insurance schedule of insurance. In those cases, a "paper trail" should show the distribution back to the schedule of insurance. 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

This process helps keep your average yield up and provides a soft landing particularly in multi year loss situations. You must sign up for this option.

**- 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.

coverage." **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 (SSN) or tax I.D. number (EIN) must be reported to us by sales closing date** or prior to the crop being planted if the change occurs after sales closing date. Failure to do so will void the policy if reported after sales closing and after the crop is planted.

Correcting a SSN or EIN must be done before acreage reporting date.

Bottom line, notify us of any change or intent to change immediately.

Failure to make timely changes

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

## Address Update

A number of areas are currently in transition from a rural route address to a 911 address. If this is your case or anytime your address changes, please notify us so we can enter your new mailing address into our mailing database.

## 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 transitional yield (T yield) into the database should the actual yield for a unit be lower than the 60% T yield.

## 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 MPCP 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.

## 2008 Weather Outlook for the U.S.

*Excerpts from the Almanac*

**Summer will be uniformly warmer than normal** across much of the nation. Precipitation will average near or somewhat below normal, except over much of the central U.S. where higher than normal rainfall will occur. The Mid-Atlantic in particular will see occasional bouts of very heavy rainfall, from heavy showery rains and locally strong thunderstorms, and in part generated by tropical activity. **We expect an active tropical season in 2008**, with the Gulf Coast directly in the crosshairs for hurricanes in mid-July, mid-August, and mid-September. **The associated tropical moisture from such systems is likely to flow northward, creating a threat of excessive rainfall over many eastern locations.**

## Crop Insurance on the Horizon

Pasture, Rangeland, and Forage (PRF) pilot program has been implemented in a number of midwestern states as well as select counties in Pennsylvania and South Carolina.

In 2007, 9710 policies were sold covering 27,565,091 acres with \$370,216,532 in total liability.

This program, if it had been available in other Southeast states, would have paid big dividends in 2007. We will

surely want to push for expansion of this program.

## We Bring To You:

- \* individual risk management planning
- \* toll-free phone service  
1-800-248-5480
- \* experienced, competent adjusting staff
- \* office personnel with combined insurance experience of 90 years
- \* devoted 100% to crop insurance
- \* fast claim turn-around
- \* e-business capabilities

## A Time for Changes

**Sales closing for all spring crops in VA, TN, and WV is March 15, 2008. NC sales closing is February 28, 2008.**

Sale 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.

Your crop insurance policy is a continuous policy. If you do not make a change, including cancellation, your policy for the upcoming year and subsequent years will be in place with the current plan and level of coverage that you elected the previous year.

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

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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 high premium subsidies, now is the time to insure all your crops at a very affordable cost per acre.**

Spring 2008

Courtesy of J. T. Davis Insurance Agency, Inc.

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.

***“OUR BUSINESS  
IS KEEPING YOU IN  
BUSINESS”***

*J T Davis Insurance Agency, Inc.*

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