

Risk Management Education for Alternative Crops

Production Risk Management When

RMA Coverage is Unavailable

February 2002

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For Which Crops Will RMA Coverage Likely Be Unavailable?

- 1. Some of the minor oilseed crops in certain Montana counties.**
- 2. Some of the *other crops* in certain Montana counties.**

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Annual Planted Crops and Fallow in Montana, 2000 Crop Year

CROP	PLANTED ACRES		COMMENTS
Program Crops:			
Barley	1,250,000		
Com	60,000		mostly irrigated
Oats	130,000		
Durum wheat	480,000		
Spring wheat	3,350,000		
Winter wheat	<u>1,500,000</u>		
Subtotal		6,770,000	61.0% of total
Oilseed Crops:			
Canola	65,000		
Flaxseed	16,000		
Mustard Seed	12,000		
Safflower	41,500		
Sunflower	<u>7,000</u>		
Subtotal		141,500	1.3% of total
Other Crops:			
Dry beans			
Garbanzo	25,300		
Pinto	14,500		
Other	7,00		
Dry Peas	28,000		
Lentils	22,000		
Potatoes	11,500		irrigated
Sugar Beets	<u>60,700</u>		Irrigated
Subtotal		162,700	1.5% of total
Fallow*:		4,023,300	36.2% of total
Total Cropland for Annually-planted Crops**		11,097,200	

* This is summer fallow associated with wheat and barley, as expressed as acres of these crops following fallow in crop year 2000.
 ** This is not an exhaustive accounting of all annually planted crops, but includes all crops individually estimated by NASS in Montana.

A Review of RMA Coverage for Crops Year 2001

Canola Maps, 2000 Crop Year

Map 1A: Canola Production, 2000 Crop Year



Map 1B: Insured Counties for Canola, 2001 Crop Year



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Flaxseed Maps, 2000 Crop Year

Map 2A: Flaxseed Production, 2000 Crop Year



Map 2B: Insured Counties for Flaxseed, 2001 Crop Year.



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Mustard Seed Map, 2000 Crop Year

Map 3A: Mustard Seed Production , 2000 Crop Year



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Safflower Maps, 2000 Crop Year

Map 4A: Safflower Production, 2000 Crop Year



Map 4B: Insured Counties for Safflower, 2001 Crop Year



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Sunflower Maps, 2000 Crop Year

Map 5A: Sunflower Production, 2000 Crop Year



Map 5B: Insured County for Sunflower, 2001 Crop Year



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Dry Bean Maps, 2000 Crop Year

Map 6A: Dry Beans Production, 2000 Crop Year



Map 6B: Insured Counties for Dry Beans, 2001 Crop Year



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Dry Pea Maps, 2000 Crop Year

Map 7A: Dry Peas Production , 2000 Crop Year



Map 7B: Insured Counties for Dry Peas, 2001 Crop Year



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Lentils Map, 2000 Crop Year

Map 8A: Lentils Production, 2000 Crop Year



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Summary of RMA Coverage vs. Production

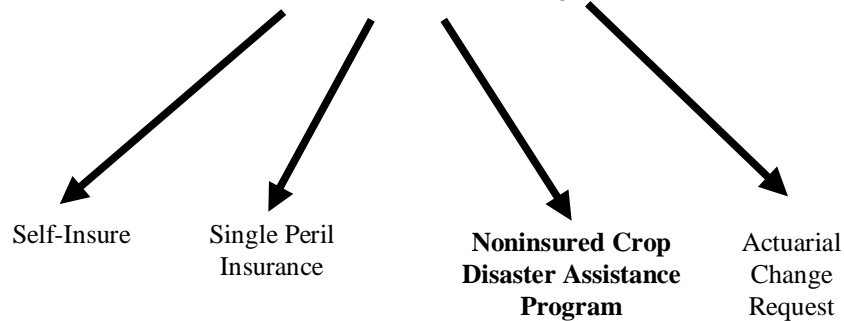
Crop	RMA Coverage
Canola	Not complete in SW, SE, and NW Montana counties
Flaxseed	Not complete in certain N and SE Montana counties
Mustard Seed	No coverage
Safflower	Sufficient coverage
Sunflower	Not complete in N Montana counties
Dry Beans	Not complete coverage in N and NE Montana counties
Dry Peas	Nearly complete coverage
Lentils	Coverage under Dry Pea contracts as separate type

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Choices

when

NO RMA Offerings



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The Noninsured Crop Disaster Assistance Program

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NAP

- **This program is managed by the Farm Service Agency, not RMA**
- **NAP rules and regulations are changing. (Now actions must be taken prior to a loss.)**
- **The program covers noninsurable crop losses and prevented plantings resulting from natural disasters.**

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NAP-Eligible Crops

Eligible crops include commercial crops and other agricultural commodities produced for food (including livestock feed) or fiber for which the *catastrophic* level of crop insurance is unavailable.

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NAP-Eligible Producers

An eligible producer is a landowner or tenant who shares in the risk of producing the crop.

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Eligible Natural Disasters

An eligible natural disaster is any of the following:

- ***Damaging weather*** such as drought, excessive moisture, or hurricane
- ***Adverse natural occurrence*** such as an earthquake or flood
- ***Related condition*** such as excessive heat or insect infestation associated with damaging weather or an adverse natural occurrence.

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Applying for NAP Coverage

- Producers must file their ***Applications for Coverage***
- Producers must pay the applicable service fees to their local FSA office
 - \$100 per crop per county
 - \$300 per producer per administrative county
 - \$900 per producer in all counties
- Assistance is offered at the ***basic unit*** level following RMA definitions
- Applications must be filed by the ***application closing date*** as established by the state FSA Committee. Generally these correspond to crop insurance closing dates. For instance, the closing date for many spring-planted crops will likely be March 15.

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Coverage Periods

The coverage period for annual crops begins the later of:

1. 30 days after the producer applies for coverage and pays applicable fees
2. The date the crop was planted, not to exceed the *final planting date*.

(Final planting dates will vary by crop)

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Coverage Periods

The coverage period for an annual crop ends the earlier of:

1. The date the producer completes the crop harvest
2. The *normal harvest date* for the crop
3. The date the crop is abandoned
4. The date the entire crop acreage is destroyed by the producer

(The normal harvest date varies by crop)

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Reporting Requirements

- **Farm managers must annually report both acreage and production information**
- **Local FSA offices will advise producers of reporting dates**

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Crop Acreage Information

Farm managers should report crop acreage soon after planting. The farm manager must report the following crop information:

- **Name of the crop, i.e., *clover***
- **Type and variety, i.e., *red***
- **Location and acreage of crop**
- **Producer's share of the crop and the names of other producers with an interest in the crop**
- **Type of practice used to grow the crop, i.e., *irrigated***
- **Date the crop was planted-by field if there are several**
- **Intended use of the commodity, i.e., *seed***

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Production Information

The farm manager must annually provide the following production information:

- **The quantity of all harvested production of the crop in which they had an interest during the crop year**
- **The disposition of the harvested crop, such as whether it was marketable, unmarketable, salvaged, or used differently than intended**
- **Verifiable and reliable production records**

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Approved Yield

- **The Farm Service Agency used the acreage and production information to calculate an *approved yield***
- **The *approved yield* is considered the expected production for the crop year**
- **An *approved yield* for an individual is usually the average of the producer's actual production history for a minimum of 4 years and a maximum of 10 years**

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NAP Assistance After a Disaster

- **When a producer's crop or planting is affected by a natural disaster, the producer must notify the FSA office and complete the *Notice of Loss* section of the *Application for Payment* form within 15 days of the following:**
 - Natural disaster occurrence
 - Date damage to the crop or loss becomes obvious to the producer
 - Final planting date if the farm manager's planted was prevented by a natural disaster
 - The normal harvest date

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Production Loss

- **The natural disaster must have reduced the expected production of the crop by more than 50%.**
- **FSA compares expected production (producer's approved yield), *the production expected in the absence of a natural disaster*, to the actual production to determine the percentage of crop loss**

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FSA Calculation of NAP Payments

- **NAP covers the amount of production loss greater than 50% of expected production**
- **The per unit payment rate that FSA specifies is 55% of the average market price of the commodity, as established by the state FSA committee**
- **The calculated NAP payment may be reduced by a factor reflecting the decrease in production costs—for an instance peas might have factors of 1.0 if the crop is harvested, 0.93 if the crop is unharvested, or 0.60 if there is prevented planting.**

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Example of NAP Financial Assistance

- **A producer of peas has an approved yield of 1,600 pounds per acre**
- **The state FSA office established an average market price of \$0.06 per pound.**
- **Due to a severe drought the producer harvested 380 pounds per acre of peas**

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Example of NAP Financial Assistance (cont.)

- The producer's total loss from expected production is 1,220 pounds (1,600-380)
- This is a 76.25% loss greater than 50%, so eligible for NAP assistance
- The production loss covered is 420 pounds = [1,220 pounds loss – (1,600 pounds x 0.50)].

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Example of NAP Financial Assistance (cont.)

- The FSA payment rate for peas is \$0.033 per pound, (\$0.06 per pound x 0.55)
- The per acre payment is \$13.86 (\$0.033 x 420) x 1.0
- This example a producer had 100 acres of peas, so the NAP payment is \$1,386.

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Choices

when

NO RMA Offerings

Self-Insure

Single Peril
Insurance

Noninsured Crop
Disaster Assistance
Program

**Actuarial
Change
Request**

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A Request For Actuarial Change

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What Happens With *A Request for Actuarial Change*?

- A successful request for Actuarial Change results in a *Written Agreement*
- A *Written Agreement*, if accepted by the farm manager, is an *individualized crop insurance contract* on the subject crop for the specified county for that crop year

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The Request for Actual Change Process

- This process is usually initiated with the farm manager conferring with the local crop insurance agent.
- The farm manager and the crop insurance agent completes the appropriate form, FCI-5, *Request for Actuarial Change*.

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Information Required

- **Completion of the request form requires the following information:**
 - The producer's name and address
 - The crop, type, and practice-(*wheat, winter, summer fallow*)
 - The location of the proposed production
 - Crop production history for the subject crop or a *similar* crop
 - Farm Service Agency aerial photography of the proposed location
 - Some evidence of the adaptability of the crop

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Clarification of the Information Requested

- Location of proposed production requires the legal description
- Crop production history of the subject or *similar* crop needs to be provided. If the farm manager's subject crop is a broadleaf, other broadleaf crops would be considered a *similar* crop
- The crop production history should include acres, yield, and production for a minimum of *three* years.

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Completed Request

- The completed *Request for Actuarial Change* is forwarded by the manager's crop insurance agent to the private sector insurance company for review
- Subsequent to the insurance company's review for completeness and accuracy, the request is forwarded to the regional office of RMA

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RMA Evaluation of the *Request for Actuarial Change*

- RMA specialists will first determine the adaptability of the subject crop
- There usually has to be a regular multiple peril crop insurance available somewhere in the United States for the Request for Actuarial Change to be successful
- With a positive determination of adaptability of the subject crop, RMA specifies a *reference county*

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RMA Evaluation of the *Request for Actuarial Change (cont.)*

- Consider a farmer in County A filing a request for peas. County B, one of four counties in the state with a crop insurance actuarial table for peas, is chosen as the reference county because it closely approximates County A in growing conditions
- RMA then thoroughly reviews the farm's production history for the subject or similar crop. RMA prepares the *Written Agreement* with the premium method specified

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The Written Agreement

- The farm manager is provided the *Written Agreement*
- The premium method is specified
- An insurable price is specified by RMA for the subject crop
- The farm manager may denote a price election for the subject crop from 55 to 100% of the specified price
- The farm manager is advised of the APH yield for the crop as specified by RMA
- The farm manager may select 50, 55, 60, 65, 70 or 75% yield coverage

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Written Agreement: Final Steps

- **The Written Agreement is returned to RMA with price and yield elections noted**
- **RMA determines the premium rate according to the premium method previously specified**
- **If the farm manager signs a Written Agreement at the specified premium rate, it is accepted**

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Written Agreement: A Recent Issue

- **RMA suspended processing *Written Agreements* for a period last fall**
- **On January 15, 2002, RMA reaffirmed that it will continue to process *Written Agreements* for the 2002 Crop Year**
- **For 2003, expect that the underwriting criteria for *Written Agreements* will be revised**

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Summary

1. For certain minor oilseeds and other crops RMA actuarial table coverages will be unavailable in a few Montana counties in 2002
2. Producers may use the FSA Noninsured Crop Disaster Assistance Program (NAP). Coverage is minimal, but so are fees
3. Producers may file for a Request for Actuarial Change with RMA and possibly be offered a Written Agreement
4. Expect changes in the scrutiny provided Requests for Actuarial Changes in subsequent crop years

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Questions????

