A crop insurance newsletter

FarmPLUS INSURANCE SERVICES

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Quality adjustment on tobacco

Most growers are aware that new quality adjustment (QA) procedures are in place for the 2012 tobacco crop insurance policy. It is important that everyone understand that the price received at the buying station or warehouse is of no consideration when determining QA for tobacco.

When graded by a U.S. Department of Agriculture (USDA) grader and if the grade received on a bale of tobacco falls within one of the grades shown in the chart below, the weight of the bale of tobacco will be discounted by the corresponding factor shown in the chart.

It is also imperative that every grower understand that claims are worked on a unit-by-unit basis and not a bale-by-bale basis. Therefore, a low quality bale of tobacco within a unit will only contribute to a higher claim settlement if the guaranteed yield for the unit is not achieved when all "production-to-count" is calculated for the unit. Production-to-count includes 1) nonquality adjusted production, 2) quality adjusted production, 3) appraised unharvested production, or 4) production that would have been made but was not made due to uninsured causes of loss (usually poor farming practices). A loss is paid at the price selection of $1.60 per pound when the above production-to-count is summed for a given unit, and the production-to-count is less than the guaranteed yield.

*See **QA** on page 2*

DISCOUNT FACTOR CHART

On the date of final inspection for the unit, the discount factors are determined using the following chart. No QA will be made on any production which has been assigned a grade that does not appear on the discount factor chart. The Quality Adjustment Factor (QAF) is 1.000 *minus* the applicable Discount Factor (DF) expressed below as three-place decimals. The production-to-count is *multiplied* by the QAF (not less than zero) to determine the net production-to-count.

Grade*	DF	Grade*	DF	Grade*	DF
B4G	0.400	C4KL	0.200	NIXL	0.800
B5G	0.800	C4S	0.200	NIXO	0.800
B4GK	0.600	H6K	0.200	NO-G	******
B5GK	0.800	M4GK	0.600	P5F***	0.200
B6K	0.200	M5GK	0.800	P4G***	0.800
B5KF	0.400	N2	******	P5G***	0.800
B6KF	0.800	N1BO	0.800	P5L***	0.200
B5KL	0.400	N1GF	******	S-Scrap	******
B4KV	0.400	N1GG	******	X4G	0.400
B5KV	0.600	N1GL***	******	X5G	0.400
B6KV	0.800	N1GR	******	X4GK	0.600
B5V	0.200	N1K	0.800	X4KF	0.200
C4G	0.600	N1KV	0.800	X4KL	0.200
C4GK	0.400	N1L***	0.800	X4KV	0.400
C4KF	0.200	N1R	0.800		

U (unsound), W (doubtful keeping order), or wet are special descriptors that may be added to any grade. We may at our discretion adjust production assigned such a descriptor according to the underlying grade.

******Any production which due to insurable causes is assigned the corresponding grade will be considered to have zero market value. Such production will not be considered production-to-count if the production is destroyed in a manner acceptable to us. No adjustment in production-to-count will be made on such production that is not destroyed.

***Includes production with the Sand descriptor.

*Any adjustment in production-to-count will be determined by multiplying the pounds of damaged tobacco production by the QA factor for the corresponding grade.

Crop Hints By Brent Craig

Every producer in this day in time is striving for the most yield for the dollar. The question that remains in my mind is: Are we doing all we can to get

the highest price for our grain? Today is July 20, 2012, and as I write this article futures contracts are showing Sept. 12 corn: $8.08, November soybeans: $16.80, December wheat: $9.32 and July 13 wheat: $8.20. My question to you is: Have you contracted any grain?

In years past, I have spoken with producers in regards to this. Some common answers: “I think it will go higher,” or “I am afraid to because the crop is not made yet.” The biggest culprit in these answers is uncertainty. Uncertainty is defined as: “A state of having limited knowledge where it is impossible to exactly describe the existing state, a future outcome, or more than one possible outcome.” Uncertainty is the only thing that is for certain in agriculture. *Wickipedia* 2012

If you elect revenue protection rather than yield protection on your crop insurance policy before the sales closing date on the applicable crop, then the amount of uncertainty will be reduced greatly. Revenue protection gives you the higher of the base price or harvest price *multiplied* by your level of coverage *times* your average yield. For example: Bill lives in Virginia, and his harvest price on his crop insurance is derived in the month of June, looking at September wheat futures. He calls the mill today, and forward contracts 3,750 bushels of wheat for delivery in July 2013. Bill has not even bought his seed wheat yet. How could he be so sure that he will make a crop of wheat next year? Bill has a 50 bushel average yield on wheat. He has a 75 level coverage and revenue protection on an enterprise unit on his wheat policy. He usually plants 200 acres, and he has a 7,500 bushel guarantee if he plants the entire crop. Bill will wait a few weeks, and he may book some more. But he can comfortably book up to 60 percent of his guarantee prior to planting because he has revenue protection and prevented-planting coverage. If Bill, after planting, does not make a grain of wheat due to an insurable cause of loss, he will still be paid on the 7,500 bushels that he is guaranteed *times* the harvest price. What happens if wheat is selling for $10 a bushel on June 13? Odds are he will be paid $10 per bushel because the harvest price will come in close to the $10 per bushel. Once the crop has been planted, Bill can contract up to his guarantee safely. The reason for this is that prior to planting, Bill has prevented-planted coverage that will cover at least 60 percent of the guaranteed yield for his intended crop. After planting, Bill has the entire guarantee that he can market safely.

Opportunities present themselves, and when they do we have to take advantage. I am not saying go out and forward contract your entire crop a year in advance. I am encouraging you to do a little if prices are good, and you can realize a profit from the contract. There are several strategies in regards to hedging. Forward contracting with an elevator is probably the simplest and requires no upfront expense.

QA
Continued from page 1

RMA recently mandated that the companies send all tobacco policyholders an explanation of the QA procedure for tobacco for 2012. The procedure involves scheduling your tobacco to be graded that you feel might be eligible for QA. This is done through participating contracting tobacco companies. Then a grower uses the Tobacco Administration Cooperative Association (TAGS) Web site to obtain a Grading Confirmation Number (GCN), which is presented to a grader when the tobacco is graded. The cost for this service is 2 cents per pound if the tobacco is being sold where graded. If the tobacco is offloaded, graded and reloaded on the grower’s truck, the cost is 7 cents per pound. The grading service (AMS) will then electronically transfer the weights and grades of the tobacco for claims purposes. Please read the informational memorandum sent to you by the insurance company for more specific instructions or call our office.

RMA tightening down

The prevailing winds within the crop insurance world are toward tightening the belt through a couple of methods. First, there is an atmosphere of strict adherence to all the rules, policy language and loss adjustment procedures that exist. This holds especially true within the tobacco community. Most everyone associated with tobacco knows of convictions, indictments, fines and penalties that have been imposed on growers, warehousemen, agents and adjusters.

Also, many are aware of claims audits and growing-season inspections (GSIs) on tobacco crops. Within this atmosphere, everyone in the crop insurance system recognizes the need to strictly adhere to all rules involving crop insurance. This holds true not only in multi-peril crop insurance (federal) but also with regards to crop hail insurance (private) on tobacco.

The Risk Management Agency (RMA) has ordered growing-season inspections (GSIs) on approximately10 percent of the growers with federal crop insurance policies on tobacco. Also, we are seeing a normal amount of GSIs/audits on grain crops which amount to roughly 2 percent of policyholders. The GSIs for tobacco appear to be selected based on data mining of variables such as loss experience, frequency of loss, yield discrepancies from farm to farm, number of entities involved in a farming operation and number of counties in which a farmer grows tobacco.

GSIs resulting from data mining are no indicator of suspected fraud but an indicator of a higher possibility for fraud to exist. Crop-hail insurance is under greater scrutiny due to problems that have been uncovered in aforementioned convictions and indictments.

As we mentioned in our most recent newsletter, RMA is stepping up enforcement of policy language, but RMA is also in the process of making modifications to policy language. We expect a new policy for tobacco in 2014 if we are fortunate enough that a policy even exists in 2014.

Representative samples of grain crops

It is important for everyone to understand the rules surrounding crops that are harvested for a use other than the intended use. This applies to corn that is chopped for silage but insured and intended as grain. It also applies to grain crops that are harvested for forage such as soybeans cut for hay or chopped for silage.

In these circumstances, if an adjuster is not immediately available or the crop is too immature to determine grain content, the adjuster will give strip authorization allowing the grower to harvest the crop and leave samples of the crop for later appraisal. Following are the guidelines for quantity and size of samples that should be left for appraisal.

The loss procedures for grain crops require that the insured must agree to the following:

(a) To leave at least the minimum number of representative samples (as stated below) of at least 10-feet wide following the full length of the field.
(b) To leave at least one representative sample in each field of 10 acres or less and an additional sample for each additional 40 acres or part thereof that exists in the field (e.g. a 30-acre field would require two samples).
(c) To locate the representative samples in representative areas of the field with the beginning side of the sample not less than 20 feet from the edge of the field.

Strip authorizations are an agreement between you, the farmer and the adjuster. We want you to be aware, however: that the above guidelines are the guidelines by which the adjuster is expected to follow. **Our office has been notified that inadequate representative samples will result in the guarantee being appraised against the crop**. This is in accordance with loss adjustment procedures.

If your corn crop is insured as silage and not for grain but the crop is grain deficient, you may still be asked to leave representative samples so that the grain content can be calculated. Significant quality adjustments can occur to increase claims settlements in grain deficient silage.

Wheat production reports

If you grew a wheat, oats or barley crop in 2012 and did not have a loss, you should have received a production reporting form from our office around July 20. It is important that you return your small grain yields to us for several reasons.

(1) A good yield stays on your yield database for 10 years, adding to your future coverage.
(2) A marginal yield can sometimes result in a revenue loss due to price fluctuation. For example, in North Carolina the Projected Harvest Price (PHP) was established at $8.09 per bushel, and the harvest price was calculated at $6.56 per bushel. This 19 percent drop in price means that a loss can still be triggered when yields are less than 19 percent **above** the yield guarantee.
(3) Failure to report yields results in an imposed yield of 75 percent of the prior yield average. An imposed yield reduces the average yield, and program rules dictate that when an imposed yield is used only one unit per county can exist for the next crop year. Revenue losses for wheat can be filed up to Aug. 15 in North Carolina and Sept. 15 in Virginia. As our office receives production reporting forms prior to these dates, we will determine if a revenue loss exists, and if so we will contact you regarding the potential loss.
While much wheat is currently insured using enterprise units (one unit per county), we ask that you report yields by farm serial number if possible to retain eligibility for optional units (separate by farm serial number).
(4) The production reporting form is our best opportunity for housekeeping regarding the farms that exist in your operation. We need for you to delete farms that are no longer in your operation, add farms that are new to your operation, verify that farm serial numbers are correct and provide us with farm names for each farm serial number that you will recognize.
(5) We can only provide completely accurate quotes for the 2013 crop when the 2012 yields have been entered into your yield database.

Pasture, Rangeland and Forage (PRF)

The sales deadline for signing up, cancelling or changing the Pasture, Rangeland and Forage (PRF)-Rainfall Index policy has been changed from Sept. 30 to Nov. 15. This will give us more time to determine the viability of the product in a year where drought conditions have affected most of us. This is a product that we still consider as an evaluation due to good and sometimes bad customer experiences. The PRF product is a pilot program and is, therefore, being evaluated throughout the nation.

Coercement is a term learned by every insurance agent in the process of studying for and testing for his/her insurance license. Coercement is defined as “to force to act or think in a certain way by use of pressure, threats or intimidation; compel,” according to freedictionary.com. It is considered illegal to coerce the sale of crop insurance using other products or services than the crop insurance itself.

For example, an agent cannot require the purchase of crop insurance from a particular source as a condition for obtaining a loan. However, the purchase of crop insurance can be required as a condition for obtaining a loan, if there is no condition pertaining to the source of the crop insurance. Because it is now legal for banks and lending institutions to sell insurance products, it is important that every consumer knows where the lines are drawn.

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Farm Bill for 2012

As of the writing of this newsletter, a farm bill for 2012 has not been legislated, and Congress is in recess. It is doubtful that a farm bill can be accomplished before the August recess of Congress. The Senate has passed a farm bill that leaves the current crop insurance program fairly unchanged other than two minor changes. First, the Senate version would link crop insurance eligibility to soil conservation compliance. Second, the Senate version would reduce subsidies for any farmer with an adjusted gross income above $750,000. Notably, the Senate version includes provisions for a margin-based insurance program for dairy farmers. Currently, the House of Representatives' Agriculture Committee has marked up their version of the farm bill, but it appears doubtful that the farm bill will be given floor time for debate and vote prior to the August recess.

Both the Senate and House versions of the farm bill call for elimination of the permanent disaster assistance program known as the Supplemental Revenue assistance payment (SURE). Both versions include a replacement for SURE that would assist growers when shallow revenue losses occur. With the drought-stricken grain belt and cattle farmers screaming for disaster assistance currently, it is easy to see an extension of the current farm bill with the SURE program included taking place for the 2012 crop year. Also, we expect an ad hoc disaster program to be legislated for beef cattle producers.

This whole process is greatly complicated by election year politics coinciding with the five-year farm bill being legislated in 2012.

If you have a wheat, oats, barley policy with us, the sales closing date is Sept. 30 in both Virginia and North Carolina. Our office will be in contact soon to discuss your coverage and options for the 2013 growing season.

Apples and peaches

This year has been interesting, to say the least, in regard to weather-related events. Late freezes, late frosts, hail storms, windstorms and sun-scorched fruit were some of these surprises. Below average quality and production is a widespread problem in most areas where apples and peaches are produced.

As picking season comes to an end, please remember the importance of good recordkeeping and appraisals. Appraisals need to be done before any fruit is picked. Most people are considered direct marketers in which the fruit goes directly from the orchard to individual consumers, and the fruit is not graded by a recognized grading system or packer. The appraisal is used to grade or take quality adjustment into account. Almost every insured we have has the "fresh option" on his or her policy. Without an appraisal, there is no way to put an official grade on the apples, and the insured cannot be paid on a quality adjustment loss. If another loss occurs after an appraisal, report it immediately so another appraisal may be done.

Pick records need to be kept daily, if at all possible. They cannot be a summary. They must include the name, address and phone number of the insured, the unit or block that was picked, variety, date picked, the name of the picker, price paid per volume picked and a verifiable receipt attached to the pick record that provides proof of payment to the picker such as a cancelled check showing the banking institution's stamp of payment. Sales receipts need to have the name, address and phone number of the seller. They also need to have the name of the buyer, if possible the amount paid per bushel, box, etc…, and the date of the sale. If you are selling by a roadside stand, for example, a ledger is considered acceptable. A ledger takes the place of a receipt in most cases because there are a high volume of small transactions, and most are cash sales. The ledger needs to be kept daily and give the volume sold and price per volume for each day. Ex: Aug. 15, 2012, 100 bushels of apples sold at $12 per bushel *equals* $1,200 total and 75 bushels of peaches sold at $15 per bushel *equals* $1,125.

Sales receipts and daily sales ledgers are not only used to back up pick records, they are the only way an insured can pass the "Fresh Verification." Remember in order to qualify for the fresh option, you must have sold at least 50 percent of your total production of apples at a price indicative of fresh in one of the previous four crop years. For example, if you produced 2,000 bushels of apples in 2012 and you sold 1,000 bushels or more at a fresh price (Rural Community Insurance Services has approved everything that we have submitted that was sold from $8 per bushel or higher) then you will be able to prove fresh for 2013. As it stands now, you would not have to do this again until 2016.

We greatly appreciate your business!!

Don't fall for bait and switch

In the professional sales business, there is a term known as bait-and-switch. An example of a bait and switch would be when a product is sold in a standard and deluxe version. If a salesman demonstrates the deluxe version but then provides pricing for the standard version and sells the standard version to the would-be customer without explaining that he is not providing the deluxe version, that salesperson is guilty of a bait-and-switch.

In crop insurance, a bait and switch can occur when an agent provides premium rates based on a producer's average yield. This would be a bait-and-switch if the producer's true average is less than the average yield that the producer is being credited for and that the true average is not used in the calculation. The true average yield can be less than the approved yield when yield floors, yield cups and yield adjustments are used. These are mechanisms that artificially help to maintain higher yield for growers when losses occur. As an example, a Person County, N.C., soybean farmer with optional units at the 60-percent level with a true average of 20 bushels and also an "approved yield" of 20 bushels would have $147.00 of coverage and a premium rate of $23 per acre. However, the same $147.00 of coverage would apply, but the premium would be $53 per acre for a Person County farmer with a 20 bushel approved yield that is "floored" at 20 bushels because the true yield is only 10 bushels per acre. A crop-insurance agent would be guilty of a bait-and-switch if he doesn't provide rates that are based upon the farmer's **true average yield, otherwise known as the simple average yield or rate yield**. We are aware that many agents do not update their customers yearly, as average yields change over time, and many times when an update occurs it is handled using average yields corresponding to the farmer's approved yield but not taking into account the lower rate yield. This practice results in under-quoting by as much as 50 percent or more, and often the farmer doesn't remember the amount that was quoted per acre when he is billed. The bait-and-switch practice is common among crop-insurance agents. Many agents are even guilty of the practice without themselves being aware. If your crop insurance is with another agency, other than FarmPlus Insurance Services, you may want to verify that you are being quoted accurate premium rates. At FarmPlus, we always use our farmers' rate yields in our calculations to provide accurate premium quotes.

Multiple carriers

Our agency is currently contracted to do crop insurance business with three different carriers. They are Rural Community Insurance Services (RCIS), ProAg, and NAU Country. There are several other companies that operate in Virginia and North Carolina. Generally, agent compensation is now dictated by the U.S. Department of Agriculture; and therefore, our primary motivation is to place your crop insurance with the company that will provide the best service.

As this newsletter is sent to many customers and noncustomers alike, there are growers outside our current customer list that have been moved from company to company due to agency acquisitions, and in some cases we may be able to provide coverage with the company that the grower previously enjoyed. If you are among our current customers and you have a desire to experience the service of another company, please let us know, and we will be happy to accommodate you. All crop insurers use the same rules and procedures from company to company. However, the differences that can exist are primarily due to personnel, software, and the culture within a company.

Small grains acreage reporting

With the upcoming sales deadline for small grains on Sept. 30, we will be contacting all existing policyholders to discuss coverage for the upcoming wheat, oats and/or barley crops. A welcome piece of information that we can pass along to growers is that in an effort to align Farm Service Agency (FSA) and crop insurance reporting deadlines; the deadline for reporting small grain acres has been moved to Jan. 15, 2013. It is presumed that the deadline for reporting acreage to FSA will also be Jan. 15.

Due to drought conditions throughout the United States, the Risk Management Agency has granted relief on interest accrual on past due premiums for the Aug. 15 billing date. Interest will not accrue on spring-planted crops prior to Oct. 31. This is a one month extension of payments without an interest penalty. However, if payment is not received by Oct. 31 (received at the company and not based on postmark), interest will be retroactively charged for October and November and beyond until paid. This applies for the 2012 crop year only.

The FarmPlus Insurance Services e-mail address has changed. Our new e-mail is *cropins@farmplusins.com*. The old e-mail address will be active for another 12 months, but we want to transition folks to our new e-mail as soon as possible.

Aflatoxins in corn

Quality adjustment (QA) is available in most crop policies if quality deficiencies occur due to insured causes of loss. QA effectively reduces the amount of production that is used to count against your crop insurance guarantee, potentially increasing loss payments. QA applies in cases of low test weight, low grade, kernel damage or mycotoxins. No QA is allowed for high moisture content. If you suspect aflatoxin in your corn crop due to drought, you should turn in a claim for the aflatoxin, even if you've already turned in a drought claim. A timely Notice of Loss is critical, especially with regards to planning the method in which the adjuster will collect grain samples for QA testing. This testing can only occur on “fully mature” corn which is corn that is below 40-percent moisture.

For farm-stored production, the samples must be obtained by an adjuster prior to the production entering storage. This is the primary reason for the need for a Notice of Loss turned in prior to harvest. In the event that an adjuster is not able to come to your farm prior to harvest or at the beginning of harvest on a farm, the adjuster may give you authorization to leave representative sample areas (RSA's) so that the sample and testing can be done. A typical sample of corn needed for aflatoxin testing is 10 pounds. Samples submitted by the insured cannot be used for QA. ONLY the adjuster is authorized to obtain samples from the standing crop.

Aflatoxins can allow for QAs from a 10-percent discount for 20-50 ppb up to 100 percent for aflatoxins over 300 ppb if the corn is destroyed rather than sold. If you hear of aflatoxins in your area or suspect it in your crop, please call.

If you would like to receive an advanced copy of subsequent newsletters, please send us an e-mail to *cropins@farmplusins.com.* Also, there are times when there is information that might be beneficial to you that, with your e-mail address, we will be able to get this information out to you as quickly as possible.

New Breaking Ground

For the 2012 crop year, many growers filed for written agreements to insure New Breaking Ground (NBG). NBG is land that has not been in row crop production for the past three crop years unless the land was not in row-crop production for rotational reasons. A Final Agency Determination (FAD) by the Risk Management Agency (RMA) in March 2012 ruled out hayland as a harvested crop or crop to qualify land as insurable. Therefore, if you are taking land out of hay, pasture, trees or fallow going forward that was not tended as a row crop in the last three years, a written agreement is needed to make that land insurable. The written agreement is required by Sales Closing Date. Sales Closing Date is Sept. 30 for all small grains; and therefore, if you are planning to plant NBG to a small grain this fall you will need to submit a written agreement for that land in order to insure the crops planted on it. A written agreement can include planting intentions on NBG for spring-planted crops to be planted in the spring of 2013. The rules surrounding NBG have been in place for years, but there is added emphasis and enforcement regarding NBG currently ongoing. RMA has seen a 400-percent increase in NBG written agreements from the 2010 to the 2012 crop year. The unfortunate outcome, when NBG is insured as normal land and then discovered to be NBG, is removal of coverage from the NBG and nonpayment of claims on crops planted to NBG land. Our fear is that claims will be paid on NBG, and then claim settlements required to be retrieved after discovery that the land was indeed NBG. Please inform us if you intend to plant crops for harvest in 2013 on NBG.

When you need crop insurance, think of FarmPlus Insurance Services. We're glad to serve you.

While our primary focus has always been crop-insurance coverage, Jennifer Minter is always eager to help you with your farm, home, auto or any other insurance coverage that you have an interest in. Claudia Franklin and Amy Alderson can also be of service to you in these areas. We are an independent agency, which means that we have many companies to offer, and therefore, are almost always very competitive. If you bought your coverage through Southside Insurance Agency, Jennifer, Amy and Claudia will be happy to help you with your policy at our Blairs office

Maps of your farming operation are available through our office, which are in full color and in full page, half page or quarter page formats. The half page and quarter page formats are printed in such a way that they can be stapled to make booklets. These booklets contain forms for note pages where a grower can insert plant dates, chemical application dates, etc. If you would like a map booklet for your operation, contact Joyce Willis at Ext. 309.