

ALASKA LEGISLATURE COMMITTEES 1983-1984 8672

2850

SRES

SB 336

2850

INSURABLE CROPS



- Almonds
- Apples
- Barley
- Citrus
- Corn
- Cotton
- Dry Beans
- Flax
- Forage
- Grain Sorghum
- Grapes
- Oats
- Peaches
- Peanuts
- Peas
- Potatoes
- Raisins
- Rice
- Rye
- Soybeans
- Sugar Beets
- Sugarcane
- Sunflowers
- Sweet Corn
- Tobacco
- Tomatoes
- Wheat

Corn, cotton and soybean policies undergo revision

Continued from page nine

are shed regardless of the time lapse from the planting date.

Soybean policy

Major changes for the soybean policy include elimination of the coverage penalty for unharvested acreage and the limitation of the replanting payment to the actual cost of replanting.

All three policies—corn, cotton and soybean—have been rewritten using "easy read" language.

Delayed premiums

The delayed premium payment plan has been written into all the revised policies. Basically, the plan provides a 30-day premium payment extension from the billing date without interest charge. Billing dates are established at the beginning of the normal harvesting season for most crops. Generally, this falls at about October 1 for most spring crops and July 1 for most fall crops.

Premiums not paid within 30 days of the billing date will accrue a one-and-one-half percent simple interest charge per month. Accounts paid by the termination dates (for most fall crops between September 15 and October 10; and on March 31 for most spring crops following the normal time of harvest) will not affect insurance protection for the following year. □

All-Risk Update

United States
Department of
Agriculture

Federal
Crop Insurance
Corporation

SPECIAL EDITION

November 1982

FCIC then and now: Crop insurance has come a long way

Thanks to the the Crop Insurance Act of 1980, the Federal Crop Insurance Corporation is expanding programs to satisfy the growing needs of farmers.

The business of agriculture has grown large and complex, and so have farmer demands for an adequate crop protection program.

The Federal Crop Insurance Corporation (FCIC) is working to satis-

fy farmer demands for financial protection in uncertain economic times.

"Crop insurance is vital to the support of modern agricultural economy," says Merritt Sprague,

manager and top man at FCIC, "and the Corporation is dedicated to making crop insurance an indispensable tool for good farm management."

Agriculture's importance to the American economy

In 1980, the food supply of 228 million Americans depended on only 3.7 million farm workers.

Over one-fifth of the total U.S. labor force is directly or indirectly dependent on agriculture for employment. Agribusiness employs more people than the steel, auto, oil, electronic, and airline industries combined.

Farmers spent \$130.7 billion on production in 1980. Seventy-one percent of this went to purchase goods and services off the farm. These expenditures generated thousands of jobs and sales for energy suppliers, equipment and machinery manufacturers, the chemical industry, and financial institutions.

Nearly one-third of U.S. farm production is exported. In 1980, agricultural exports paid for about one-half the cost of imported petroleum and petroleum products—an important factor in limiting the size of the Nation's trade deficit.

With statistics like these, more Americans than just farmers have a stake in maintaining the financial security of American agriculture. That is why crop insurance is so important to the individual farmer as well as to American society.

Continued next page



The Federal Crop Insurance Corporation has been serving the American farmer since 1938. Here a farmer is shown applying for crop insurance in Bottineau County, North Dakota, November 1941. (National Archives)

FCIC then and now:

Crop insurance has come a long, long way

Crop insurance and agricultural stability

The need for crop insurance protection has become more critical today than ever before. Higher annual production costs and increased outlays for capital investments make the business of farming much more difficult.

The average American farmer cannot survive many crop failures. To recover the investment lost from one crop failure can easily take the profits from five years of average crop production.

And what if that farmer is so unfortunate as to have two or three crop failures during his farming career?

Without crop insurance, he may spend a significant part of his productive life operating his farm just to recover from such unavoidable crop losses. Crop insurance can help prevent such a vicious cycle from developing.

Crop insurance is designed to provide farmers with dependable, equitable protection by utilizing taxpayers' money in the most cost-effective manner. Crop insurance strives to be self-supporting in that many farmers from many areas of the country contribute to its operation through the payment of premiums.

Removing drawbacks

For many years, the mood of the country has been favoring an efficient and widespread crop insurance program. FCIC has been around since 1938, but it wasn't until the passage of the Federal Crop Insurance Act of 1980 that the Corporation was given the legislative means to allow for proper expansion and the delivery systems so sorely needed.

In the years before the passage of the 1980 Act, crop insurance did not enjoy a significant participation rate. This was due in part to the fact that the program was operated on an experimental basis

on only a few crops in a limited number of counties.

Contributing to the farmers' reluctance to make greater use of crop insurance has been the low yield protection level, and the availability of other disaster protection plans.

However, 1981 marked the end of routine disaster payments. With the new powers allowed by the 1980 Act, FCIC is making great strides in providing a more attractive program to farmers.

Exciting improvements

By far the most impressive improvement in Federal Crop Insurance is the expansion in scope. Twenty-eight different crops are presently insurable. Instead of being limited to only 1,928 agricultural counties, crop insurance is offered in nearly all of the 3,000 agricultural counties in the United States.

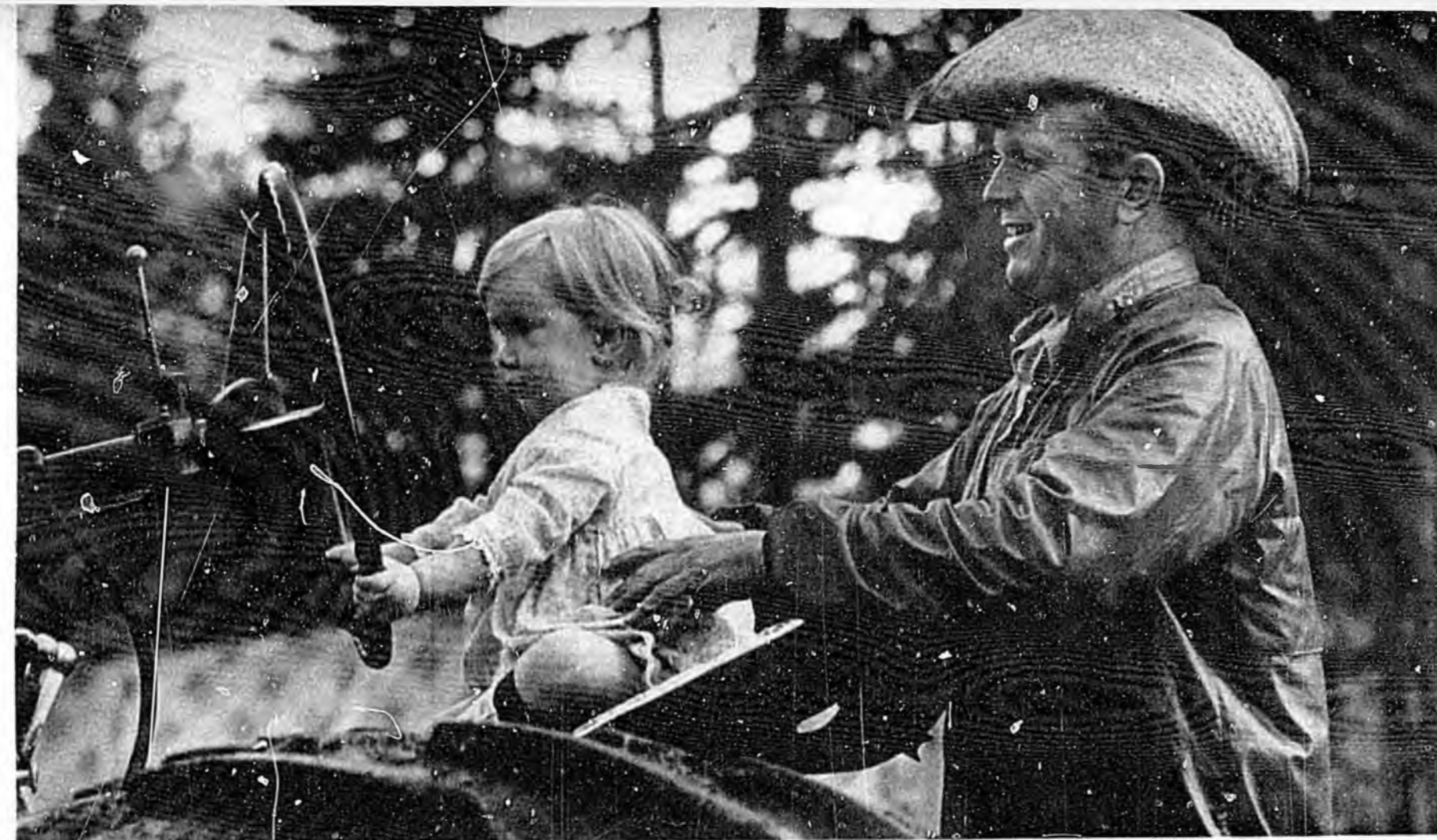
To help reach the farmers in all these counties, FCIC is relying on the private insurance industry as the primary means for delivery. Farmers may choose an agent to sell and service their policy from a list provided in every county office of the Agricultural Stabilization and Conservation Service (ASCS).

In addition to the overall expansion in the availability of crop insurance, many specific changes have been made in the programs themselves to make them more attractive to farmers.

Individual Yield Coverage Program (IYCP)

IYCP went into effect in crop year 1982 for soybeans and the six disaster crops (corn, wheat, cotton, grain sorghum, rice, and barley) formerly covered by disaster benefits.

Producers who believe that insurance coverage provided to them is based upon unrealistically low



Left: Crop insurance can be used as protection on a hedging position or as collateral on a loan. Not all the uses and advantages of carrying crop insurance can be measured in dollars and cents—peace of mind and confidence in the future are among the intangible benefits. (USDA Photo)

Right: Tornado touches down near Plainview, Texas, May 1978. Crop insurance covers unavoidable losses—indemnities have been paid for nearly 120 separate causes. (Photo courtesy of NOAA) Below: Sandstorm buries field in Cimarron County, Oklahoma, 1935. The terrible dust bowl years of the 1930's prompted Franklin D. Roosevelt to promise crop insurance as part of his presidential platform. (USDA Photo)



average yields are given the opportunity to substantiate their own higher yields. Farmers with adequate yield records for their crops for at least the most recent three years of a 10-year base period may insure at 50, 65, or 75 percent of those proven yields. Area-average yields are used for years for which the farmer has no records.

In September 1982, FCIC's Board of Directors took several steps to significantly improve IYCP.



The revised IYCP (effective for 1983 spring-planted crops) continues to use the producer's records in the same manner, but coverages are based on a new yield formula.

Under the revised yield formula, production records are compared to county yield averages to arrive at a producer yield index. This index is then applied to the county yield average as computed by the Statistical Reporting Service (SRS) for those years for which the farmer has inadequate records. FCIC officials feel this new approach will better reflect the production capabilities of top producers.

Individual Certified Yield Plan (ICYP)

Because many farmers who feed their crop production to livestock or poultry do not keep adequate production records, FCIC has designed a program to help ease them into the regular Individual Yield Coverage Plan.

The "ease in" program is called the Individual Certified Yield Plan (ICYP). Under the ICYP, farmers must produce satisfactory acreage and yield data for at least the most recent crop year, plus any complete or incomplete data for that crop for the prior two years. Crop yield data must be certified by ASCS.

The remaining years of a 10-year base period will be calculated by adjusting the county average as computed by SRS. This will be done in the same manner as for IYCP.

Data that can be used to verify production yields include: Sales records, feeding records, fertilization and liming records, insecticide and herbicide records, ASCS acreage certification, planting pattern and population data, information on land tillage practices, and equipment adequacy information.

As soon as three consecutive years of acreage and yield data are available, the producers using the Individual Certified Yield Plan must convert to the Individual Yield Coverage Plan for determining yields.

Under the Individual Certified Yield Plan, higher coverages require additional premiums per acre; under the Individual Yield Coverage Plan they do not.

For both plans, FCIC will assist in maintaining records at no charge to the producer. ASCS will provide the appropriate forms and assist with bin measurements and standing crop appraisals when such help is appropriate.

Late Planting Agreement Option

Thanks to FCIC's new Late Planting Agreement Option, farmers will be able to purchase insurance protection when they miss planting dates because of bad weather. The Option becomes effective with the 1983 crop year.

Continued next page

Previously, crop insurance coverage was rejected on all acreage the insured farmer was unable to plant by the final planting date set by the Corporation.

Under the Option, however, insured farmers will be able to have their coverage extended on acreage planted up to a maximum of 20 days after the final planting date. The production guarantee on the acreage will be reduced 10 percent every five days up to the 20th day following the final planting date. The premium rate will remain the same for the coverage provided.

The Late Planting Option is another example of FCIC's efforts to build increased flexibility into its programs while maintaining an actuarially sound base.

Policy revisions

The Corporation has been actively seeking the opinions of producers on how to make specific crop policies more attractive and useful to the farmer. Meetings between FCIC management and growers have resulted in fruitful exchanges of ideas that have led to important crop policy revisions.

For example, efforts are underway to review and rewrite all crop policies in layman's language, using terminology that is simple and easy to understand. Specific policies have undergone revisions that make them more responsive to the growers of certain crops.

Among the most significant changes in the revised corn policy is the elimination of the provision for the reduction of coverage when acreage is unharvested. Also, a replanting provision was added to cover the actual cost of replanting a corn crop up to a maximum of \$20.00 per acre when in the best interests of FCIC. The 50-percent coverage penalty was eliminated for cases when the damaged corn acreage is planted with another insurable crop that will be harvested the same year.

The soybean policy, too, was revised to eliminate the coverage penalty for not harvesting and to limit the replanting payment to the actual cost of replanting up to a maximum of \$20.00 per acre.

Of major significance to insured cotton producers will be the increase in coverage levels brought about by changing the stage guarantees.

FCIC eliminated the reduction in guarantee on cotton for unharvested acreage and combined the second and third stage guarantees. The first stage guarantee was increased to 60 percent. Coverage was established at 100 percent of the full guarantee for both the second and third stages.

FCIC has revised its definition for the first stage of cotton. The first stage now ends "after blooms are shed or 50 days after the final planting date, whichever comes first."

This definition should satisfy the growers' complaint that they must keep poor cotton stands until the blossoms are shed regardless of the time lapse from the planting date.

Streamlined program administration

FCIC has developed a simplified method of processing documents so that farmers get faster and better service with significant cost savings to the Corporation. This includes a multi-crop application form introduced in the spring of 1982 which reduces paperwork processing time. The entire data automation system also is being updated and expanded.

Premium subsidy

Crop insurance is more affordable for farmers because the Federal Government pays up to 30 percent of the premium cost. In addition, a few State Governments are considering the possibilities of offering additional premium subsidies to their farmers.

Many uses

Crop insurance can have a variety of uses for the farmer. Some farmers buy it to protect against financial disaster. Others buy it to provide peace of mind.

Some use it as collateral to acquire a more adequate financing plan or to protect themselves on a hedging position. In all cases, crop insurance can provide a valuable

management tool for the modern farmer.

The beginnings of crop insurance

Benjamin Franklin is the first person on record in this country to support a crop insurance program.

In 1738, Franklin suggested "an office of insurance of farms against the damage that may occur to them from storms, blight, insects, etc. A small sum paid by a number would repair such losses and prevent much poverty and distress."

The most complete early analysis of the principles of crop insurance was written by a German economist for the Japanese government. The report was published in 1889 and called attention to the desperate economic condition of Japanese farmers and the large number of farm foreclosures. It noted that agricultural relief funds only became available after farmers faced total financial ruin.

Not until 1899 did the first private insurance company experiment with a crop insurance program in the United States. It failed. Various other private insurance companies tried to provide crop insurance programs in 1917, 1920, 1921, 1931, and 1932. All failed.

In all of the early attempts at crop insurance, the most serious handicaps were the lack of adequate crop data as well as the lack of a satisfactory actuarial foundation upon which to base insurance rates.

The terrible thirties

Public attention to and demand for a Federal crop insurance program reached a climactic turning point during the tragic drought years of the 1930's.

The plight of drought-stricken farmers helped motivate Franklin D. Roosevelt to promise crop insurance as part of his platform when he campaigned for President.

Finally, in 1938, the Federal Crop Insurance Corporation was created as an agency within the U.S. Department of Agriculture. The Corporation came into existence in response to the Federal Crop Insurance Act (approved by Congress in February 1938) enact-

ed as Title V of the Agriculture Adjustment Act of 1938.

A newly-created FCIC takes its first steps

The original Act provided for insurance on wheat only. It set up in general terms the plan of insurance, providing the Corporation authority to insure crops against unavoidable causes of loss.

The Act named certain causes of loss to be included, but it also provided that the Board of Directors could name other unavoidable causes. Thus, it authorized multi-peril crop insurance.

The original Act allowed for the operational organization to be set up as a Corporation so that it might have flexibility and operate somewhat as a private company.

FCIC's first crop year of operation was 1939. County work was handled largely by county crop insurance supervisors who were responsible to the Agricultural Adjustment Administration (AAA) county committees for sales and some servicing. The county crop insurance supervisors were responsible to the Corporation for loss adjustment and handling of funds.

But at the end of the first year, AAA (later to become the Agricultural Stabilization and Conservation Service) was dissatisfied, and suggested that it either take over the total county operation or be disassociated from crop insurance. The result was that AAA was given full responsibility for field operations, including loss adjustment.

Eventually, the local administration of the crop insurance program gradually evolved to a mix of commission agents under contract, FCIC county offices, and reimbursable agreements with ASCS.

The role of ASCS today

On July 23, 1981, ASCS and FCIC signed a memorandum of understanding which outlined the major areas of cooperation between the two agencies. ASCS county offices are now major contact points for information on all crop insurance programs.

ASCS collects data on all crops grown in each county to help FCIC

make production determinations for the Individual Yield Coverage Plan.

ASCS also validates acreage and production reports for individual producers.

Private insurance has almost completely assumed the business of policy sales. FCIC county offices that sold crop insurance have been closed.

About 60 to 80 ASCS county offices sell crop insurance in certain areas of the country where there is little participation by private insurance companies. This represents less than two percent of the total number of counties where crop insurance is sold.

Early trials, early setbacks

In 1942, cotton insurance was added to the FCIC program. Losses exceeded premiums on both wheat

and cotton in each of the first five years (1939-1943).

Drought caused heavy wheat losses in the southern half of the plains States in 1939 and 1940. Widespread winterkill took a heavy toll on the wheat crop in 1941.

Largely because of these losses, Congress suspended the crop insurance program in the summer of 1943. There was no insurance on 1944 crops nor on the 1945 winter wheat crop planted in the fall of 1944.

New legislation near the end of 1944 reactivated the crop insurance program, and flax was added as an insurable crop. This legislation also provided for experimental insurance on other commodities in not more than 20 counties each. The legislation was passed in time to insure spring-planted crops for 1945—spring wheat, cotton, and flax.

Because of the new legislation and changes in the insurance operation, the financial experience of the Corporation improved greatly on wheat.

Drought caused heavy losses on cotton in 1945 and 1946. This motivated Congress to reduce the entire crop insurance program to an experimental basis. Insurance was then authorized only in a limited number of counties. While this limited existing programs, it also allowed for experimental insurance to begin on more types of crops.

The experiment expands

The limited and experimental approach to crop insurance went into effect with the 1948 crop year. There were only 375 county programs in 1948 compared to the 2,400 in 1947. Over the years, Congress periodically reviewed crop insurance programs and authorized expansion into more counties.

It wasn't until the Federal Crop Insurance Act of 1980 that most limitations were rolled back, and the Corporation was allowed to aim for maximum expansion.

The Act of 1980 heralded an exciting new era in the crop insurance experiment. □

INSURABLE CROPS

Almonds
Apples
Barley
Apples
Citrus
Corn
Cotton
Dry Beans
Flax
Forage
Forage Seed
Grapes
Oats
Peaches
Peanuts
Peas
Potatoes
Raisins
Rice
Rye
Sorghum
Soybeans
Sugar Beets
Sugarcane
Sunflowers
Sweet Corn
Tobacco
Tomatoes
Wheat

Cordery
Liska
Larson
Shultz
Kingstad
Vehling

Mulcahy
Jahrenkamp
Ziegler
P. Fischer
Sturgulewski

Danny

3pm - 4:10pm

extra copies
B
back up

testifiers & titles

1982 - 1st yr program in AK
barley May 20 ^{final} planting date. (Hard to meet.)
1983 - 2/3 eligible acreage insured
1984 - wheat, oats

premiums used solely to ~~pay~~ losses to farmers
admin & operating costs paid by fed. gov.

premium costs higher to AK than to other producers - so
reason to seriously consider this leg. ^{in state subsidy} ~~then~~ AK producer
end up paying what other states' farmers pay.

~~know~~ no production history for area-wide coverage; 3-yr history for individualized history

state subsidy

make crop ins. more attractive to producers

state admin. expenses?

- FCIC could bill state for share. Admin. cost would be simply to review bill & send check.

if ag base of economy, crop loss has ripple effect

moving toward using actual yield history to determine guaranteed yield. "out 3 yrs., use traditional method - "area"

How premiums figured:

estimate expectation of paying losses. Want to break even over period of time.

Sturgulewski concerned: little crop history to base on.

intend to expand crops covered & counties in which covered

~~DANNY - FOR FRIDAY -~~

~~check w/ Sen. Fin. on~~

~~how to tape~~

~~need slide projector (check w/ Sims) & screen~~

Move to not provide emergency relief in areas where crop insurance available.

Currently low interest

loans. When disaster, farmer doesn't need a loan - needs an indemnity payment.

Some

Lenders requiring crop insurance

1983, pay-out indemnities \$202,000
premiums paid \$139,054

drought & heat in early July
early snowfall at harvest time

doesn't mean
premium rates
aren't high
enough. Takes
more than
1 year to
determine.

on barley rate in Alaska 20%
Northern Wash. 12-15%
elsewhere Lower 48 8%

early rainfall in Fall = major risk in Delta

request fiscal note

Heim - ARLF - insurance could pay off short-term loans

Governor supports

put \$140,000 in budget for crop years 84 & 85 -
cover 35,000 acres @ \$4/ac.

↑
for 2 crop yrs.
looking at slight
expansion.

(currently 14,000 ac. in production)

without
bill
authorizing?

levels of protection	st	fed	producer
50%	30	30	40
65%	20	20	60
75%	max. allowed by fed. law		

In other words, 50% deductible

Beardsley -
economic +

- low admin. cost
- our \$ matched by fed \$ that otherwise wouldn't come into state
- moves away from 'crisis' mgmt - implies we're getting a better use of our \$

concern

(?) coverage = greater pooling impact. More people involved = lower rates overall.

- individualize program. Currently encourages low-level producers rather than high-level.

(?) Farmer pay \$8, get \$80 indemnity, repay \$4 to state.

(?) - encourage hay coverage

Haeford - ^{Support.} state ends up w/ defaulted loan in event
of major crop loss.

Urge ~~to~~ DNR to take aggressive
approach w/ FCIC to get more crops & areas
covered.

By _____

B. No. _____

A BILL TO BE ENTITLED

AN ACT

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relating to state contributions toward the premium for federal crop insurance.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF TEXAS:

SECTION 1. Title 8, Agriculture Code, is amended by adding Chapter 254 to read as follows:

CHAPTER 254. CONTRIBUTIONS TOWARD FEDERAL CROP INSURANCE PREMIUMS

Sec. 254.001. DEFINITION. In this chapter, "corporation" means the Federal Crop Insurance Corporation.

Sec. 254.002. AGREEMENT WITH FCIC. (a) The department shall enter into an agreement with the Federal Crop Insurance Corporation under which the department agrees to pay to the corporation a subsidy for federal crop insurance premiums paid by Texas producers of agricultural commodities. The agreement must provide for a corresponding reduction in the federal crop insurance premium paid by those producers.

(b) The agreement may provide for a portion of the department's payments to the corporation to be used for administrative costs.

Sec. 254.003. AMOUNT OF CONTRIBUTIONS. Under the agreement, the department shall pay to the corporation for each covered producer an amount equal to the amount that the corporation pays for that producer under Section 508(b)(3) of the Federal Crop Insurance Act (7 U.S.C.A. Sec. 1501 et seq.), except as otherwise

1 provided by this chapter.

2 Sec. 254.004. LIMITATION. The amount paid by the department
3 for each producer may not exceed 30 percent of the producer's
4 premium, as calculated by the corporation, on coverage of up to 65
5 percent of the recorded or appraised yield, as adjusted.

6 Sec. 254.005. APPROPRIATIONS. (a) The payments to the
7 corporation shall be made from funds appropriated to the department
8 for that purpose.

9 (b) If for any year the amount appropriated is insufficient
10 to fully fund the contribution required by Section 254.003 of this
11 code, the department shall proportionately reduce the amount paid
12 for each producer.

13 SECTION 2. The importance of this legislation and the
14 crowded condition of the calendars in both houses create an
15 emergency and an imperative public necessity that the
16 constitutional rule requiring bills to be read on three several
17 days in each house be suspended, and this rule is hereby suspended,
18 and that this Act take effect and be in force from and after its
19 passage, and it is so enacted.

document provided by OSDIT 4103

Federal Crop Insurance Delivery Systems

The Federal Crop Insurance Act of 1980 (P.L. 96-365) changed the whole thrust of the Federal Crop Insurance program, from one of limited coverage on limited crops in limited counties, to one that will eventually insure every commercially grown crop in every county nationwide.

The Act also mandated that the Corporation move to an all-private delivery system. Prior to 1980, federal crop insurance was sold by federal employees in county offices. The 1980 law defined the private delivery system to include "private insurance companies or pools of such companies."

In response to the congressional mandate, the Corporation now offers insurance through two basic delivery systems: Sales and Service Agencies (Master Marketers) and Reinsured Private Companies. Compensation rates are different under each sales agreement because the amount of risk assumed and service provided under each delivery system is different.

Sales and Service Agencies (Master Marketers)

Sales and Service Agencies...known as Master Marketers...manage and provide supervision for at least 25 agents. Under this system, private companies or associations contract with FCIC to write policies on FCIC paper.

The Master Marketers provide management, supervision of agents, contract servicing and quality control, and the Federal Government compensates them on a commission basis...18 percent for new business and 13 percent for carryover.

An expense allowance amounting to 3 percent of expected premiums is payable to agencies upon receipt of acreage reports by FCIC.

The remainder of the commissions earned by agencies, most of which is due to individual agents as a commission for sales, will be paid to agencies only after the producers share of the premium has been collected and the commission fully earned.

Last year, there were about 40 organizations writing crop insurance under the Master Marketing arrangement, with about 7,500 agents.

"Reinsured" Private Insurance Companies

Under the reinsured system, private insurance companies offer crop insurance under their own brand names, offering identical benefits and costs as an FCIC policy. The private companies providing marketing, distribution, servicing, training, quality control, premium collection and loss adjustment functions. But the Federal Crop Insurance Corporation "Reinsures" the company against extraordinary operational and actuarial losses, and compensates the company for the sales and service functions it performs.

Reinsured companies receive 27 percent of the premium costs for new business...to cover agent commissions, company operating costs and loss adjustment...5 percent less for carryover business, and 4 percent of premium and 3 percent of losses for loss adjustment.

There are literally thousands (if not millions) of reinsurance treaties in effect in the United States, with many risks reinsured more than once. The FCIC reinsurance treaty is in many ways similar to commercial reinsurance, with specialized coverage to meet unique situations. It has been compared to stop loss coverage utilized by many crop-hail insurance companies.

The Standard Reinsurance Agreement is a fixed-priced contract which provides compensation schedules equivalent to the master marketing agreement, plus expense reimbursement for those additional costs borne by the companies associated with crop insurance. Reinsurance companies also share in the risks assumed to a maximum of 11 1/3 percent of premium income. Favorable loss experience will result in a profit to the company while unfavorable experience can lead to a loss.

Risk Assignment

Loss Ratio less than 70 percent, FCIC receives all gain.

Loss Ratio 70 percent to 95 percent, FCIC receives a share of the gain along with the private carrier.

Loss Ratio 95 percent to 540 percent, FCIC assumes a major share of the loss, the private companies assumes a minor share loss.

Loss Ratio over 540 percent, FCIC assumes all of the loss.

ASCS Sales

Although we have moved to a virtual all private delivery system, ASCS offices will continue to provide sales and service to 80 counties in the Northeastern U.S. with marginal agricultural activity, and about 20 other counties in various parts of the U.S. where no private delivery system is yet in place.

Financial Standards for Agencies

Master Marketers

On December 13, 1982, the Federal Register published the financial standards for Master Marketers. These standards require the financial statements to be audited or, under certain conditions, reviewed by independent certified public accountants.

Reinsured

Standards for reinsured companies are in the process of being finalized for approval by FCIC's Board of Directors. We have met with the National Association of Insurance Commissioners (NAIC) to discuss the proposed standards and to see if they comply with the industry's guidelines. The basis of these standards is a ratio analysis of annual statements required to be filed with the state insurance commission in which the company is licensed to conduct business.

The intention of the Federal Crop Insurance Corporation is to provide American farmers with an affordable and reliable risk management tool. We are working hard to meet that goal. The efforts of Reinsured Companies, along with Sales and Service Agencies (Master Marketers), will be necessary to achieve our ultimate objective of providing crop insurance on every commercially grown crop in every county to every producer in America. With their help and with the continued support of the Congress we will meet that goal.

FEDERAL CROP INSURANCE ACT

AS AMENDED OCTOBER, 1980

FEDERAL CROP INSURANCE ACT, AS AMENDED OCT. 1, 1980

/Note: The Federal Crop Insurance Act (52 Stat. 72), approved February 16, 1938, has been amended as follows: June 22, 1938, by 52 Stat. 835; June 21, 1941, by 55 Stat. 255; December 23, 1944, by 58 Stat. 918; August 1, 1947, by 61 Stat. 713; August 25, 1949, by 63 Stat. 663; August 13, 1952, by 67 Stat. 575; August 3, 1956, by 70 Stat. 1034; July 23, 1957, by 71 Stat. 309; August 4, 1959 by 73 Stat. 278; September 12, 1964, by 78 Stat. 934; July 28, 1972, by 86 Stat. 501; and October 1, 1980, by S.1125.

Short Title and Application of Other Provisions

Sec. 501. This title may be cited as the "Federal Crop Insurance Act." Except as otherwise expressly provided the provisions in titles I to IV, inclusive, shall not apply with respect to this title, and the term "Act" wherever it appears in such titles shall not be construed to include this title. ^{1/}

Declaration of Purpose

Sec. 502. It is the purpose of this title to promote the national welfare by improving the economic stability of agriculture through a sound system of crop insurance and providing the means for the research and experience helpful in devising and establishing such insurance.

Sec. 503. To carry out the purposes of this title, there is hereby created as an agency of and within the Department of Agriculture a body corporate with the name "Federal Crop Insurance Corporation" (herein called the Corporation). The principal office of the Corporation shall be located in the District of Columbia, but there may be established agencies or branch offices elsewhere in the United States under rules and regulations prescribed by the Board of Directors.

Capital Stock

Sec. 504. (a) The Corporation shall have a capital stock of \$500,000,000 subscribed by the United States of America, payment for which shall, with the approval of the Secretary of Agriculture, be subject to call in whole or in part by the Board of Directors of the Corporation.

^{1/} The Federal Crop Insurance Act is title V of the Agricultural Adjustment Act of 1938 (52 Stat. 31)

(b) There is hereby authorized to be appropriated such sums as are necessary for the purpose of subscribing to the capital stock of the Corporation.

(c) Receipts for payments by the United States of America for or on account of such stock shall be issued by the Corporation to the Secretary of the Treasury and shall be evidence of the stock ownership by the United States of America.

(d) Within thirty days after the date of enactment of the Federal Crop Insurance Act of 1980, the Secretary of the Treasury shall cancel, without consideration, receipts for payments for or on account of the stock of the Federal Crop Insurance Corporation outstanding on such date of enactment and such receipts shall cease to be liabilities of the Corporation.

Management of Corporation

Sec. 505. (a) The management of the Corporation shall be vested in a Board of Directors (hereinafter called the "Board") subject to the general supervision of the Secretary of Agriculture. The Board shall consist of the manager of the Corporation, the Under Secretary or Assistant Secretary of Agriculture responsible for the Federal crop insurance program, the Under Secretary or Assistant Secretary of Agriculture responsible for the farm credit programs of the Department of Agriculture, one person experienced in the crop insurance business who is not otherwise employed by the Federal Government, and three active farmers who are not otherwise employed by the Federal Government. The Board shall be appointed by, and hold office at the pleasure of the Secretary of Agriculture, who shall not, himself, be a member of the Board. The Secretary, in appointing the three active farmers who are not otherwise employed by the Federal Government, shall ensure that such members are policyholders and are from different geographic areas of the United States, in order that diverse agricultural interests in the United States are at all times represented on the Board.

(b) Vacancies in the Board so long as there shall be four members in office shall not impair the powers of the Board to execute the functions of the Corporation, and four of the members in office shall constitute a quorum for the transaction of the business of the Board.

(c) The Directors of the Corporation who are employed in the Department of Agriculture shall receive no additional compensation for their services as such Directors but may be allowed necessary traveling and subsistence expenses when engaged in business of the Corporation, outside the District of Columbia. The Directors of the Corporation who are not employed by the Federal Government shall be paid such compensation for their services as Directors as the Secretary of Agriculture shall determine, but such compensation shall not exceed the daily equivalent of the rate prescribed for

grade GS-16 under section 5332 of title 5 of the United States Code when actually employed, and actual necessary traveling and subsistence expenses, or a per diem allowance in lieu of subsistence expenses, as authorized by section 5703 of title 5 of the United States Code for persons in Government service employed intermittently, when on the business of the Corporation away from their homes or regular places of business.

(d) The manager of the Corporation shall be its chief executive officer, with such power and authority as may be conferred upon him by the Board. He shall be appointed by, and hold office at the pleasure of, the Secretary of Agriculture.

General Powers

Sec. 506. The Corporation —

(a) shall have succession in its corporate name;

(b) may adopt, alter, and use a corporate seal, which shall be judicially noticed;

(c) may purchase or lease and hold such real and personal property as it deems necessary or convenient in the transaction of its business, and may dispose of such property held by it upon such terms as it deems appropriate;

(d) subject to the provisions of section 508(c), may sue and be sued in its corporate name, but no attachment, injunction, garnishment, or other similar process, mesne or final, shall be issued against the Corporation or its property. The district courts of the United States, including the district courts of the District of Columbia and of any territory or possession, shall have exclusive original jurisdiction, without regard to the amount in controversy, of all suits brought by or against the Corporation. The Corporation may intervene in any court in any suit, action, or proceeding in which it has an interest. Any suit against the Corporation shall be brought in the District of Columbia, or in the district wherein the plaintiff resided or is engaged in business;

(e) may adopt, amend, and repeal by-laws, rules and regulations governing the manner in which its business may be conducted and the powers granted to it by law may be exercised and enjoyed;

(f) shall be entitled to the use of the United States mails in the same manner as the other executive agencies of the Government;

(g) with the consent of any board, commission, independent establishment, or executive department of the Government, including any field service thereof, may avail itself of the use of information, services, facilities, officials, and employees thereof in carrying out the provisions of this title;

(h) shall assemble data for the purpose of establishing sound actuarial bases for insurance on agricultural commodities;

(i) shall determine the character and necessity for its expenditures under this title and the manner in which they shall be incurred, allowed, and paid, without regard to the provisions of any other laws governing the expenditure of public funds and such determinations shall be final and conclusive upon all other officers of the Government;

(j) shall have such powers as may be necessary or appropriate for the exercise of the powers herein specifically conferred upon the Corporation and all such incidental powers as are customary in Corporations generally; and

(k) may enter into and carry out contracts or agreements necessary in the conduct of its business, as determined by the Board. State and local laws or rules shall not apply to contracts or agreements of the Corporation or the parties thereto to the extent that such contracts or agreements provide that such laws or rules shall not apply, or to the extent that such laws or rules are inconsistent with such contracts or agreements.

Personnel

Sec. 507. (a) The Secretary shall appoint such officers and employees as may be necessary for the transaction of the business of the Corporation pursuant to civil-service laws and regulations, fix their compensation in accordance with the provisions of the [Classification Act of 1949 (5 U.S.C. 1071-73)], define their authority and duties, delegate to them such of the powers vested in the Corporation as he may determine, require bond of such of them as he may designate, and fix the penalties and pay the premiums of such bonds: Provided, That personnel paid by the hour, day, or month when actually employed, and county crop insurance committeemen may be appointed and their compensation fixed without regard to civil-service laws and regulations or the [Classification Act of 1949].

(b) Insofar as applicable, the benefits of the Act entitled "An Act to provide compensation for employees of the United States suffering injuries while in the performance of their duties, and for other purposes", approved September 7, 1916, as amended, shall extend to persons given employment under

the provisions of this title, including the employees of the committees and associations referred to in subsection (c) of this section and the members of such committees;

(c) In the administration of this title, the Board shall, to the maximum extent possible, (1) establish or use committees or associations of producers and make payments to them to cover the administrative and program expenses, as determined by the Board, incurred by them in cooperating in carrying out this title, (2) contract with private insurance companies and reimburse such companies for the administrative and program expenses, as determined by the Board, incurred by them, under terms and provisions and rates of compensation consistent with those generally prevailing in the insurance industry and (3) encourage the sale of Federal Crop Insurance through licensed private insurance agents and brokers and give the insured the right to renew insurance for successive terms through such agents and brokers, in which case the agent or broker shall be reasonably compensated from premiums paid by the insured for such sales and renewals recognizing the function of the agent or broker to provide continuing services while the insurance is in effect: Provided, such compensation shall not be included in computations establishing premium rates. The Board shall provide such agents and brokers with indemnification, including costs and reasonable attorney fees, from the Corporation for errors or omissions on the part of the Corporation or its contractors for which the agent or broker is sued or held liable, except to the extent the agent or broker has caused the error or omission.

(d) The Secretary of Agriculture may allot to bureaus and offices of the Department of Agriculture or transfer to such other agencies of the State and Federal Governments as he may request to assist in carrying out this title any funds made available pursuant to the provisions of section 516 of this Act, except that employees or agencies responsible for administering this Act in each county shall be selected and designated by the Corporation and shall be responsible directly to the Corporation without the intervention of any intermediate office or agency.

(e) In carrying out the provisions of this Title the Board may, in its discretion, utilize producer-owned and producer-controlled cooperative associations.

(f) The Board should use to the maximum extent possible, the resources, data, boards, and the committees of (1) the Soil Conservation Service, in assisting the Board in the classification of land as to risk and production capability and in development of acceptable conservation practices; (2) the Forest Service, in assisting the Board in the development of a timber insurance plan; (3) the Agricultural Stabilization and Conservation Service, in assisting the Board in the determination of individual producer yields and in serving as a local contact point for farmers where the Board deems necessary; and (4) other Federal agencies in any way the Board deems necessary in carrying out this title.

Crop Insurance

Sec. 505. To carry out the purposes of this title the Corporation is authorized and empowered —

If sufficient actuarial data are available, as determined by the Board, to insure producers of agricultural commodities grown in the United States under any plan or plans of insurance determined by the Board to be adapted to the agricultural commodity involved. Such insurance shall be against loss of the insured commodity due to unavoidable causes, including drought, flood, hail, wind, frost, winterkill, lightning, fire, excessive rain, snow, wildlife, hurricane, tornado, insect infestation, plant disease, and such other unavoidable causes as may be determined by the Board.

Except in the case of tobacco, insurance shall not extend beyond the period the insured commodity is in the field. For the purpose of the foregoing sentence, in the case of aquacultural species, the term 'field' means the environment in which the commodity is produced. Any insurance offered against loss in yield shall make available to producers protection against loss in yield that covers 75 per centum of the recorded or appraised average yield of the commodity on the insured farm for a representative period (subject to such adjustments as the Board may prescribe to the end that the average yields fixed for farms in the same area, which are subject to the same conditions, may be fair and just). In addition, the Corporation shall make available to producers lesser levels of yield coverage, including a level of coverage at 50 per centum of the recorded or appraised average yield, as adjusted. The Corporation shall not make available to producers any level of coverage in excess of 75 per centum of the recorded or appraised average yield, as adjusted. One of the price elections offered shall approximate (but be not less than 50 per centum of) the projected market price for the commodity involved, as determined by the Board; and insurance provided under this subsection shall not cover losses due to the neglect or malfeasance of the producer, or to the failure of the producer to reseed to the same crop in areas and under the circumstances where it is customary to so reseed or to the failure of the producer to follow established good farming practices. The Board may limit or refuse insurance in any county area, or on any farm, on the basis of the insurance risk involved. Insurance shall not be provided on any agricultural commodity in any county in which the Board determines that the income from such commodity constitutes an unimportant part of the total agricultural income of the county, except that insurance may be provided for producers on farms situated in a local producing area bordering on a county with a crop-insurance program. The Corporation shall report annually to the Congress the results of its operations as to each commodity insured.

(b)(1) To fix adequate premiums for insurance at such rates as the Board deems actuarially sufficient to cover claims for losses on such insurance and to establish as expeditiously as possible a reasonable reserve against unforeseen losses.

(2) The producer may elect to have deleted from the Corporation's policy of insurance the coverage against losses caused by hail and fire and to obtain coverage therefor from other than a Federal insurer. Upon notice in writing of such election to the Corporation and submission of evidence of such substitute coverage on the commodities insured by the Corporation in a dollar amount not less than that provided by the Corporation's policy of insurance, the producer's premium, as calculated by the Corporation, shall be reduced by an amount equal to 40 per centum of the prevailing average county hail and fire insurance premium charged by other than Federal insurers for the dollar amount of the coverage provided by the Corporation's policy of insurance, as determined by the Corporation: Provided, That the producer's premium shall not be reduced by less than 15 per centum nor more than 30 per centum: Provided further, That, notwithstanding the preceding provisions of this sentence, the producer's premium shall not be reduced by an amount that exceeds the premium for the substitute coverage of a dollar amount equal to that provided by the Corporation's policy of insurance. Any premium reduction in excess of the amount of premium that the Corporation determines would have been necessary for the Corporation to charge in order to cover indemnities actually paid by other than Federal insurers for hail and fire coverage deleted from the Corporation's policy of insurance shall be regarded as premium paid by the Corporation.

(3) For the purpose of encouraging the broadest possible participation in the insurance program, 30 per centum of each producer's premium (~~reduced, where applicable, for hail and fire exclusion, or State or State agency subsidy~~), as calculated by the Corporation on any coverage under the Corporation's policy of insurance of up to a maximum of 65 per centum of the recorded or appraised average yield, as adjusted, shall be paid by the Corporation.

(4) The producer's premium, or share thereof, shall be collected at such time or times, and shall be secured in such manner, as the Board may determine.

(5) The Board may enter into agreements with any State or agency of a State under which such State or agency may pay to the Corporation additional premium subsidy to further reduce the portion of the premium paid by farmers in each State.";

(6) With respect to any crop insurance covering the 1981 crop of wheat, feed grains, upland cotton, or rice, a producer shall not be eligible for a partial payment of the premium by the Corporation under paragraph (3) of this subsection for such commodity if the producer elects to make the acreage of the commodity eligible for payments under the disaster payment provisions for wheat, feed grains, upland cotton, and rice of the Agricultural Act of 1949 (as amended effective for the 1981 crops): Provided further, That a producer who is not eligible for a partial payment of premium by the Corporation under this subsection because of the producer's election to make the acreage of the commodity involved eligible for disaster payments in 1981

shall remain eligible to purchase Federal crop insurance on the 1981 acreage of the commodity at the full cost of the premium.

(c) To adjust and pay claims for losses under rules prescribed by the Board. In the event that any claim for indemnity under the provisions of this title is denied by the Corporation, an action on such claim may be brought against the Corporation in the United States district court for the district in which the insured farm is located: Provided, That no suit on such claim may be allowed under this section unless it shall have been brought within one year after the date when notice of denial of the claim is mailed to and received by the claimant.

(d) In connection with insurance upon yields of cotton, to include provision for additional premium and indemnity in terms of lint cotton to cover loss of cotton seed, such additional premium and indemnity to be determined on the basis of the average relationship between returns on cottonseed and returns from lint cotton for the same period of years as that used for computing yields and premium rates.

(e) And directed, notwithstanding any other provision of this title, to provide reinsurance, to the maximum extent practicable, upon such terms and conditions as the Board may determine to be consistent with subsections (a) and (b) of this section and sound reinsurance principles, to insurers including private insurance companies or pools of such companies, reinsurers of such companies, or State or local governmental entities, including any political subdivisions thereof, that insure producers of any agricultural commodity under a plan or plans acceptable. A test program of such reinsurance shall be made available, to the maximum extent possible, to begin not later than with the 1982 crops. In order to provide equity among producers purchasing crop insurance, whenever the Corporation provides reinsurance under this subsection to any such insurers, the Corporation shall pay a portion of each producer's premium for such insurance so reinsured. Each payment shall cover the same per centum of the premium, and be subject to the same restrictions regarding payments of premiums for crop insurance on commodities, as provided in subsection (b) of this section for Federal partial payments of Federal crop insurance premiums. The Corporation shall also pay operating and administrative costs to insurers of policies on which the Corporation provides reinsurance to the same extent that such costs are covered by the Corporation's policies of insurance. Insurers of policies on which reinsurance is provided shall make use of licensed private insurance agents and brokers on the same basis as provided for policies of the Corporation under section 507 (c)(3) of this title, except that the provisions for compensating agents and brokers from premiums paid by the insured shall not apply.

(f) To provide insurance or reinsurance for production of agricultural commodities in the Commonwealth of Puerto Rico, the Virgin Islands of the United States, Guam, American Samoa, the Commonwealth of the Northern Mariana Islands, and the Trust Territory of the Pacific Islands in

the same manner as provided in this section for production of agricultural commodities in the United States.

(g) To offer specific risk protection programs including, but not limited to, prevented planting, wildlife depredation, tree damage and disease, and insect infestation programs under such terms and conditions as the Board may determine: Provided, That no program may be undertaken if insurance for the specific risk involved is generally available from private companies.

(h) To include appreciation (including interest charges) as an insurable cost of production in calculating premiums and indemnities in connection with insurance on yields of timber and forests.

(i) To conduct research, surveys, pilot programs and investigations relating to crop insurance and agriculture-related risks and losses including, but not limited to, insurance on losses involving reduced forage on rangeland caused by drought and by insect infestation, livestock poisoning and disease, destruction of bees due to the use of pesticides, and other unique problems of special risk related to, but not limited to, fruits, nuts, vegetables, aquacultural species, forest industry needs (including appreciation), and other agricultural products as determined by the Board: Provided, That no such programs may be undertaken if insurance protection against such risks is generally available from private companies. Beginning in the 1981 crop year and ending after the 1985 crop year, the Corporation shall also conduct a pilot program of individual risk underwriting of crop insurance in not less than twenty-five counties. Under this pilot program, to the extent that appropriate yield data are available, the Corporation shall make available to producers in such counties crop insurance under this title based on personalized rates and with guarantees determined from the producer's actual yield history. After the completion of any pilot program under this subsection, the Corporation shall evaluate the pilot program and submit to the Committee on Agriculture of the House of Representatives and the Committee on Agriculture, Nutrition, and Forestry of the Senate, a report of the operations of the pilot program, including its evaluation of the pilot program and its recommendations with respect to implementing the program on a national basis.

Indemnities Exempt from Levy

Sec. 909. Claims for indemnities under this title shall not be liable to attachment, levy, garnishment, or any other legal process before payment to the insured or to deduction on account of the indebtedness of the insured or his estate to the United States except claims of the United States or the Corporation arising under this title.

Deposit of Funds

Sec. 510. All money of the Corporation not otherwise employed may be deposited with the Treasurer of the United States or in any bank approved by the Secretary of the Treasury, subject to withdrawal by the Corporation at any time, or with the approval of the Secretary of the Treasury may be invested in obligations of the United States or in obligations guaranteed as to principal and interest by the United States. Subject to the approval of the Secretary of the Treasury, the Federal Reserve banks are hereby authorized and directed to act as depositories, custodians, and fiscal agents for the Corporation in the performance of its powers conferred by this title.

Tax Exemption

Sec. 511. The Corporation, including its franchise, its capital, reserves, and surplus, and its income and property, shall exempt from all taxation now or hereafter imposed by the United States or by any Territory, dependency, or possession hereof, or by any State, county, municipality or local taxing authority.

Fiscal Agent of Government

Sec. 512. When designated for that purpose by the Secretary of the Treasury, the Corporation shall be a depository of public money, except receipts from customs, under such regulations as may be prescribed by said Secretary; and it may also be employed as a financial agent of the Government; and it shall perform all such reasonable duties, as a depository of public money and financial agent of the Government, as may be required of it.

Accounting by Corporation

Sec. 513. The Corporation shall at all times maintain complete and accurate books of account and shall file annually with the Secretary of Agriculture a complete report as to the business of the Corporation. The financial transactions of the Corporation shall be audited at least once each year by the General Accounting Office for the sole purpose of making a report to Congress, together with such recommendations as the Comptroller General of the United States may deem advisable: Provided, That such report shall not be made until the Corporation shall have had reasonable opportunity to examine the exceptions and criticisms of the Comptroller General or the General Accounting Office, to point out errors therein, explain or answer the same, and to file a statement which shall be submitted by the Comptroller General with his report.

Crimes and Offenses

Sec. 514. (a) The provisions of section 22 of Title 41 shall not apply to any crop insurance agreements made under this chapter.

Sec. 515. (Repealed 10-1-80)

Appropriations and Regulations

Sec. 516. (a) There are hereby authorized to be appropriated such sums as may be necessary to cover the operating and administrative costs of the Corporation, including agents' and brokers' commissions, interest on Treasury notes and other obligations, partial premium payments by the Corporation, and the direct cost of loss adjusters for crop inspections and loss adjustments, which shall be allotted to the Corporation in such amounts and at such time or times as the Secretary of Agriculture may determine. Expenses in connection with agents' and brokers commissions, interest on Treasury notes and other obligations, partial premium payments by the Corporation, and the direct cost of loss adjusters for crop inspections and loss adjustments may be paid from premium income and other Corporation funds, and any such payments may be restored by appropriations in subsequent years. The Corporation may not employ more than two hundred additional permanent full-time employees, in excess of the number of full-time employees employed by the Corporation on the effective date of the Federal Crop Insurance Act of 1980, to implement the provisions of this title, except in the case of, and only during emergencies.

(b) The Secretary and the Corporation, respectively, are authorized to issue regulations as may be necessary to carry out the provisions of this title.

(c)(1) If at any time the moneys available to the Federal Crop Insurance Corporation are insufficient to enable the Corporation to discharge its responsibility of indemnifying producers for losses under this title, the Corporation may, upon majority vote of its Board of Directors, request the Secretary of Agriculture to use the funds of the Commodity Credit Corporation to make timely payment of indemnities to producers. Upon receiving such a request the Secretary of Agriculture may use the funds of the Commodity Credit Corporation to meet obligations to indemnify producers for losses under this title. The Secretary's authority to use the funds of the Commodity Credit Corporation for the purposes of this subsection shall expire one year after the date on which the authority is first used.

(2) The authority to make commitments under this subsection, in excess of funds available to the Commodity Credit Corporation under section 4 of the Commodity Credit Corporation Charter Act and the Act of October 11, 1973 (92 Stat. 1073), shall be effective for any fiscal year only to the extent provided by appropriation Acts.

(d) Except as provided in subsection (c) if at any time the moneys available to the Federal Crop Insurance Corporation are insufficient to enable the Corporation to discharge its responsibility of indemnifying producers for losses under this title, the Corporation may issue to the Secretary of the Treasury notes or other obligations in such forms and denominations, bearing such maturities, and subject to such terms and conditions, as may be prescribed by the Secretary of the Treasury. Redemption of such notes or obligations shall be made by the Corporation from moneys available from premiums or the issuance of capital stock under section 504 of this title. Such notes or other obligations shall bear interest at a rate determined by the Secretary of the Treasury, which shall be not less than a rate determined by taking into consideration the average market yield on outstanding marketable obligations of the United States of comparable maturities during the month preceding the issuance of the notes or other obligations. The Secretary of the Treasury shall purchase any notes or other obligations issued hereunder and for that purpose is authorized to use as a public debt transaction the proceeds from the sale of any securities issued under the Second Liberty Bond Act and the purposes for which securities may be issued under that Act are extended to include any purchase of such notes or obligations. The Secretary of the Treasury may at any time sell any of the notes or other obligations acquired by the Secretary of the Treasury under this subsection. All redemptions, purchases, and sales by the Secretary of the Treasury of such notes or other obligations shall be treated as public debt transactions of the United States. The borrowing authority provided for in this subsection may be exercised by the Corporation only to such extent or in such amounts as are provided in appropriation Acts.

Separability

Sec. 517. The sections of this title and subdivisions of sections are hereby declared to be separable, and in the event any one or more sections or parts of the same of this title be held to be unconstitutional, the same shall not affect the validity of other sections or parts of sections of this title.

Sec. 518. "Agricultural commodity", as used in this title, means wheat, cotton, flax, corn, dry beans, oats, barley, rye, tobacco, rice, peanuts, soybeans, sugar beets, sugar cane, tomatoes, grain sorghum, sunflowers, raisins, oranges, sweet corn, dry peas, freezing and canning peas, forage, apples, grapes, potatoes, timber and forests, nursery crops, citrus, and other fruits and vegetables, nuts, tame hay, native grass, aquacultural species (including, but not limited to, any species of finfish, mollusk, crustacean, or other aquatic invertebrate, amphibian, reptile, or aquatic plant propagated or reared in a controlled or selected environment), or any other agricultural commodity, excluding livestock and stored grain, determined by the Board under subsection (a) or (i) of section 508 of this title, or any one or more of such commodities, as the context may indicate.

Sec. 519. The right to alter, amend, or repeal this title is hereby reserved.

Sec. 520. Notwithstanding any other provision of law, no person shall be denied insurance under this Act solely on the ground that he is under twenty-one years of age if such person is (1) over eighteen years of age, and (2) has a bona fide insurable interest in a crop as an owner-operator, landlord, tenant or sharecropper; Provided, That any such person who enters into a Federal Crop Insurance contract shall be subject to the same legal liability and have the same legal rights with respect to such contract as any person over the age of twenty-one years.

Sec. 521. Except as otherwise provided in this Act, the provisions of this Act amending the Federal Crop Insurance Act shall become effective on the date of enactment of this Act.

TITLE II - DISASTER PAYMENTS
PREVENTED PLANTING DISASTER AND FARM DISASTER
PAYMENTS FOR THE 1981 CROP YEAR

Sec. 201. (a) Section 101(h)(4) of the Agricultural Act of 1949, as added effective for 1978 through 1981 crops of rice, is amended by—

(1) in subparagraph (B), striking out "Effective only with respect to the 1978, 1979, and 1980 crops of rice," and inserting in lieu thereof "Except as otherwise provided in subparagraph (D) of this paragraph, effective with respect to the 1978 through 1981 crops of rice,";

(2) in subparagraph (C), striking out "Effective only with respect to the 1978, 1979, and 1980 crops of rice," and inserting in lieu thereof "Except as otherwise provided in subparagraph (D) of this paragraph, effective with respect to the 1978 through 1981 crops of rice,"; and

(3) redesignating subparagraph (D) as subparagraph (E) and inserting immediately after subparagraph (C) a new subparagraph (D) as follows:

"(D) With respect to the 1981 crop of rice, cooperators on a farm shall not be eligible for disaster payments under this paragraph if the cooperators elect to cover the rice acreage with crop insurance, part of the premium for which is paid by the Federal Crop Insurance Corporation under the provisions of section 505(b)(3) or 508(e) of the Federal Crop Insurance Act."

(b) Section 103 (f)(5) of the Agricultural Act of 1949, as added effective for the 1978 through 1981 crop of upland cotton, is amended by—

(1) in subparagraph (A), striking "Effective only with respect to the 1978, 1979, and 1980 crops of upland cotton," and inserting in lieu thereof "Except as otherwise provided in subparagraph (C) of this paragraph, effective with respect to the 1979 through 1981 crops of upland cotton,";

(2) in subparagraph (B), striking out "Effective only with respect to the 1978, 1979, and 1980 crops of upland cotton," and inserting in lieu thereof "Except as otherwise provided in subparagraph (C) of this paragraph, effective with respect to the 1978 through 1981 crops of upland cotton,"; and

(3) adding at the end thereof a new subparagraph (C) as follows:

"(C) With respect to the 1981 crop of upland cotton, producers on a farm shall not be eligible for disaster payments under this paragraph if the producers elect to cover the upland cotton acreage with crop insurance, part of the premium for which is paid by the Federal Crop Insurance Corporation under the provisions of section 508(b)(3) or 508(e) of the Federal Crop Insurance Act."

(c) Section 105A(b)(2) of the Agricultural Act of 1949 as added effective for the 1977 through 1981 crops of feed grains is amended by—

(1) in subparagraph (A), striking out "Effective only with respect to the 1978, 1979, and 1980 crops of feed grains," and inserting in lieu thereof "Except as otherwise provided in subparagraph (C) of this paragraph, effective with respect to the 1978 through 1981 crops of feed grains,";

(2) in subparagraph (B), striking out "Effective only with respect to the 1978, 1979, and 1980 crops of feed grains," and inserting in lieu thereof "Except as otherwise provided in subparagraph (C) of this paragraph, effective with respect to the 1978 through 1981 crops of feed grains,"; and

(3) redesignating subparagraph (C) as subparagraph (D) and inserting immediately after subparagraph (B) a new subparagraph (C), as follows:

"(C) With respect to the 1981 crop of feed grains, producers on a farm shall not be eligible for disaster payments under this paragraph if the producers elect to cover the feed grain acreage with crop insurance, part of

the premium for which is paid by the Federal Crop Insurance Corporation under the provisions of section 508(b)(3) or 508(e), of the Federal Crop Insurance Act."

(d) Section 107(A)(b)(2) of the Agricultural Act of 1949 as added effective for the 1977 through 1981 crops of wheat, is amended by—

(1) in subparagraph (A), striking out "Effective only with respect to the 1978, 1979, and 1980 crops of wheat," and inserting in lieu thereof "Except as otherwise provided in subparagraph (C) of this paragraph, effective with respect to the 1978 through 1981 crops of wheat,";

(2) in subparagraph (B), striking out "Effective only with respect to the 1978, 1979, and 1980 crops of wheat,;" and inserting in lieu thereof "Except as otherwise provided in subparagraph (C) of this paragraph, effective with respect to the 1978 through 1981 crops of wheat,;" and

(3) redesignating subparagraph (C) as subparagraph (D) and inserting immediately after subparagraph (B) a new subparagraph (C) as follows:

"(C) With respect to the 1981 crop of wheat, producers on a farm shall not be eligible for disaster payments under this paragraph if the producers elect to cover the wheat acreage with crop insurance, part of the premium for which is paid by the Federal Crop Insurance Corporation under the provisions of section 508(b)(3), or 508(e) of the Federal Crop Insurance Act.",

NOTICE TO PRODUCERS OF RIGHT TO ELECT
SUBSIDIZED CROP INSURANCE OR DISASTER PAYMENTS
ON THE 1981 CROPS

Sec. 202. The Secretary of Agriculture, after consultation with the Board of Directors of the Federal Crop Insurance Corporation, shall, at least sixty days prior to the beginning of the planting of the 1981 crops of wheat, feed grains, upland cotton, and rice, or thirty days after the date of enactment of this Act, whichever is the later, notify producers of those commodities of their right to elect, with respect to the 1981 crop, between (1) declaring the farm acreage of the respective commodity eligible for disaster payments under the Agricultural Act of 1949, or (2) covering such farm acreage with crop insurance, part of the premium for which is paid by the Federal Crop Insurance Corporation under the provisions of section 508(b)(3) or 508(e) of the Federal Crop Insurance Act. Such notice shall include a statement of the percent of crop insurance premium that will be paid by the Corporation.

APPENDIX

Criminal Provisions

Whoever, being an officer, agent or employee of or connected in any capacity with the Reconstruction Finance Corporation, Federal Deposit Insurance Corporation, Home Owners' Loan Corporation, Farm Credit Administration, Federal Housing Administration, Federal Farm Mortgage Corporation, Federal Crop Insurance Corporation, Farmers' Home Corporation or any land bank, intermediate credit bank, bank for cooperatives or any lending, mortgage, insurance, credit or savings and loan corporation or association authorized or acting under the laws of the United States, and whoever, being a receiver of any such institution, or agent or employee of the receiver, embezzles, abstracts, purloins or willfully misapplies any moneys, funds, credits, securities or other things of value belonging to such institution, or pledged or otherwise intrusted to its care, shall be fined not more than \$5,000 or imprisoned not more than five years, or both; but if the amount or value embezzled, abstracted, purloined or misapplied does not exceed \$100, he shall be fined not more than \$1,000 or imprisoned not more than one year, or both. (18 U.S.C. 657)

Whoever, with intent to defraud, knowingly conceals, removes, disposes of, or converts to his own use or to that of another, any property mortgaged or pledged to, or held by, the Farm Credit Administration, any Federal intermediate credit bank, or the Federal Farm Mortgage Corporation, Federal Crop Insurance Corporation, Farmers' Home Corporation, the Secretary of Agriculture acting through the Farmers' Home Administration, any production credit association organized under sections 1131-1134n of Title 12, or in which a Production Credit Corporation holds stock, any regional agricultural credit corporation, or any bank for cooperatives, shall be fined not more than \$5,000 or imprisoned not more than five years, or both; but if the value of such property does not exceed \$100, he shall be fined not more than \$1,000 or imprisoned not more than one year, or both. (18 U.S.C. 658)

Whoever, being an officer, agent or employee of or connected in any capacity with the Reconstruction Finance Corporation, Federal Deposit Insurance Corporation, Home Owners' Loan Corporation, Farm Credit Administration, Federal Housing Administration, Federal Farm Mortgage Corporation, Federal Crop Insurance Corporation, Farmers' Home Corporation, or any land bank, intermediate credit bank, bank for cooperatives or any lending, mortgage, insurance, credit or savings and loan corporation or association authorized or acting under the laws of the United States, with intent to defraud any such institution or any other company, body politic or corporate, or any individual, or to deceive any officer, auditor, examiner or agent of any such institution or of department or agency of the United States, makes any false entry in any book, report or statement of or to any such institution, or without being duly authorized, draws any order or bill of exchange, makes any acceptance, or issues, puts forth or assigns any note, debenture, bond or other obligation, or draft, bill of exchange, mortgage, judgment, or decree, or with intent to defraud the United States or any agency thereof, or any

corporation, institution, or association referred to in this section, participates or shares in or receives directly or indirectly any money, profit, property, or benefits through any transaction, loan, commission, contract, or any other act of any such corporation, institution, or association, shall be fined not more than \$10,000 or imprisoned not more than five years, or both. (18 U.S.C. 1006)

Whoever knowingly makes any false statement or report, or willfully overvalues any land, property or security, or the purpose of influencing in any way the action of the Reconstruction Finance Corporation, Farm Credit Administration, Federal Crop Insurance Corporation, Farmers' Home Corporation, any Federal intermediate credit bank, or the Federal Farm Mortgage Corporation, or any division, officer, or employee thereof, or of any corporation organized under sections 1131-1134m of Title 12, or in which a Production Credit Corporation holds stock, or of any regional agricultural credit corporation established pursuant to law, or of the National Agricultural Credit Corporation, a Federal Home Loan Bank, the Federal Home Loan Bank Board, the Home Owners' Loan Corporation, a Federal Savings and Loan Association, a Federal land bank, a joint-stock land bank, a National farm loan association, or of a Federal Reserve bank, upon any application, advance, discount, purchase, purchase agreement, repurchase agreement, commitment, or loan, or any change or extension of any of the same, by renewal, deferral of action or otherwise, or the acceptance, release, or substitution of security therefor, shall be fined not more than \$5,000 or imprisoned not more than two years, or both. (18 U.S.C. 1014)

Whoever, while acting in any official capacity in the administration of any Act of Congress relating to crop insurance or to the Federal Crop Insurance Corporation speculates in any agricultural commodity or product thereof, to which such enactments apply, or in contracts relating thereto, or in the stock or membership interests of any association or corporation engaged in handling, processing, or disposing of any such commodity or product, shall be fined not more than \$10,000 or imprisoned not more than two years, or both. (18 U.S.C. 1903)

* * * * *

Statement of Merritt W. Sprague, Manager
Federal Crop Insurance Corporation
U..S. Department of Agriculture
before the
ALASKA HOUSE & SENATE COMMITTEE ON RESOURCES
Juneau, Alaska
January 11, 1984

The crop insurance program administered by the Federal Crop Insurance Corporation (FCIC), and agency of the U.S. Department of Agriculture, is the first line of defense against the adverse economic impact of severely reduced crop production due to natural disasters. Crop insurance replaces many of the disaster payment programs of the past. It is the kind of user-supported program, making maximum involvement of private sector participation, that is favored by many in today's society.

The crop insurance program is expected by Congress to be conducted as a business which follows sound insurance practices and principles. It is designed to provide farmers with dependable, equitable protection that utilizes taxpayer's support in the most cost-effective manner possible.

In keeping with the mandates of the 1980 Federal Insurance Act, much progress has been made toward expanding participation, increasing number and adequacy of insurance offers, building a professional, well-trained delivery system, and developing an effective agency which meets its responsibilities in a timely and efficient manner.

Crop insurance premiums are almost entirely used to pay losses or build reserves to cover future catastrophic loss situations. The premiums are cost-shared by the U.S. Department of Agriculture to a maximum extent of 30 percent at the 65 percent coverage level. The administrative costs of the crop insurance program, including all expenses related to sales, loss adjustment, and operations of the FCIC, are paid from appropriated funds and in effect, are a further indirect subsidy to the program.

Even without state subsidy, the cost of crop insurance to the producer is often less than the cost of the seed planted. Crop insurance is a

high-value, reasonably-priced package of protection which each and every producer needs to fully consider.

The Federal Crop Insurance program seems particularly designed for and should be very useful to farmers in Alaska considering the known risks of crop production in the Alaskan areas presently producing field crops.

Mid-summer frosts, early fall rain during harvest, and the acquired taste for barley by Buffalo seems to occur with some regularity in at least the Delta Junction area where the major portion of our insurance experience has been. Federal Crop Insurance has, since the 1982 crop year, been able to help Alaskan farmers respond to these unavoidable risks to crop production in the Delta Junction and Matanuska Valley areas. Our 1983 program provided for protection from all of the natural risks on approximately 70 percent of the planted acres in the primary crop producing areas of the state. This was accomplished through a partnership between the Federal Crop Insurance Corporation and insured farmers -- both sharing in the premium costs.

As I indicated earlier, our current legislation provides for the Federal Government to participate in approximately 30 percent of the total premium payment. The intent of the proposed Alaska legislation is to provide this same premium partnership between the Alaska State Government and Alaskan farmers. This is a long range plan for a risk sharing partnership between Alaskan farmers and the legislative body which also created the legislation which provided for the development of cropland from forest ground. It is my understanding most of the area producing field crops (barley) has been developed from native forest land during recent years and much more cropland development is planned for the future.

It would be our intent that this long range partnership and risk management plan should not become a tax burden to the citizens in the great state of Alaska. Rather, this proposal would allow the Alaska State Government to make an annual investment in a three-way partnership along with Alaskan farmers and the Federal Government to help manage the considerable risks of growing field crops.

Today's crop insurance is greatly improved and can serve as a very important part of producer's risk management plan. Everyone would benefit from greater

participation; farmers most especially. Lenders are in greater numbers requiring crop insurance as a condition for farm operating loans because such insurance helps protect their investment in agriculture.

Crop insurance provides individual farmers significant help in resolving cash flow problems when production problems arise. This will further strengthen the local agricultural economies. For example, farmers will be able to meet financial obligations to the Alaska Revolving Loan Fund by insuring against crop loss due to natural hazards.

We in crop insurance have increased our level of commitment to Alaskan farmers as we have expanded the areas and crops insurable in Alaska effective for the 1984 crop year. During 1984, for the first time Federal Crop Insurance may be obtained by any Alaskan farmer producing wheat or oats, wherever they are located in the state, simply by letting us know his need.

The ultimate result of this proposed legislation will be to provide Alaskan State Government support for the tremendous efforts of individual Alaskan farmers to produce field crops on a commercial basis to meet future needs.

The FCIC will work with the State of Alaska to minimize administrative expenses associated with state support for crop insurance. The only required administrative costs to the state should relate to the preparation and transmission of payments by the state to FCIC on the behalf of Alaska producers.

In summary, the bill being discussed today should lead to greater participation by Alaska producers in the crop insurance program. The reduced cost to the producer should make it far more attractive to individual farmers. It will be a higher value package in relation to its cost.

Increased participation will mean that the needs of producers for risk management protection will be better met. This is particularly significant in view of the absence of other disaster payment programs. Also, increased risk protection for more Alaskan farmers will have a beneficial impact on other segments of our economy whose viability depends on a healthy agriculture.

The recent improvements in crop insurance contracts and operational procedures make crop insurance more attractive than ever to producers. The need for financial protection in uncertain economic times is greater than ever. As a result, high levels of participation in crop insurance are vital to the protection and maintenance of the modern agricultural economy. The bill, which would provide additional incentives to participation in crop insurance, should benefit all segments of Alaska society.

We, at FCIC, are committed to working with you in any appropriate fashion in what we consider to be a major initiative to help Alaska producers. We commend you for your foresight and efforts. I thank you for this opportunity to appear before the committee.

State Participation in Federal Crop Insurance

Unlike most other businesses, individual farmers have only limited control over the quantity of production or the prices received from their products. Farm income is more variable than any other national income category--six times more than non-farm proprietor's income. It takes only a 5 percent change in the aggregate quantity of production to cause a 25 percent change in net farm income.

The Federal Crop Insurance Act administered by USDA's Federal Crop Insurance Corporation (FCIC) complements provisions of the Farm Act which provides protection for farmers against price risk through its commodity loan and target price provisions. FCIC protects farmers against losses from natural disasters not provided for in the Farm Act. Farmers are assured of recovering, at a minimum, the lost capital they must have in order to continue farming--to buy the seed, fuel, and fertilizer that are the inputs of next year's food supply.

The Federal government through its system of ad hoc disaster assistance programs has accepted a role in providing assistance to farmers with the overriding purpose of stabilizing agriculture income which, in turn, benefits the entire economy by maintaining agricultural purchasing power for products produced by non-farmers which translates into increased food security for the American consumer.

The same logic can be applied to state governments which often provide programs and benefits to support various segments of the state economies.

This type of support in agriculture is not unprecedented. There are many combined local, state, and federal programs operating now involving research programs, informational programs, and direct aid programs all within the sphere of agriculture.

The insurance concept provided by FCIC provides a unique mechanism for such state-federal cooperation in the area of farm disaster and does not require exhaustive or expensive state systems of regulation.

Basically, the new law provides that state governments be given the opportunity to increase participation within their individual states in the comprehensive insurance program by providing additional subsidy incentive for farmers over and above the Federal contribution.

The Federal contribution is 30 percent of the premium cost up through the 65 percent of yield coverage level. An additional subsidy from a state for those farmers within that state would make the insurance more affordable and might encourage participation to be increased thus assuring a strong farm economy regardless of risk conditions.

This type of support could be accomplished by the states in a number of ways:

1. The state could make direct payments to the producers for a specified share of the farmer-paid portion of his premium which is paid to the Federal Crop Insurance Program. This would be in the form of a state "refund" for a pre-determined portion of that premium.
2. The state could provide tax credits for participating farmers on its State Income Tax returns. This would be regulated strictly within each state and would have no direct Federal connection other than added incentive.
3. The Federal government could bill each cooperating state for its share of the additional subsidy--to be determined initially by each state--at the time the acreage reports are processed and the extent of farmer participation in each state is determined for the crop year.

This would be similar to the Canadian plan, only the Federal Government bills the State, instead of the Province billing the Federal Government.

4. The State could offer the entire insurance plan, similar to the Canadian program, and FCIC or a Federal agency could act as a reinsurer and share in the cost to a pre-determined extent.

The side benefits beyond the farm sector to rural communities and urban areas would be enormous. The additional guarantees that farmers in the state would have to meet loan repayment obligations and to pay cash costs, even when crops fail, would stabilize the economic activity of local communities and strengthen the surrounding rural economy and, to a lesser degree, the urban economy.

8/20/82

Alaska State Legislature

BETTYE FAHRENKAMP, Chairman
ROBERT H. ZIEGLER, SR., Vice Chairman
DICK ELIASON
PAUL FISCHER
VIC FISCHER
BOB MULCAHY
ARLISS STURGULEWSKI



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Senate

Committee on Resources

MINUTES

January 23, 1984
3:06 pm

Beitz Room
Room 211, Capitol

MEMBERS PRESENT

Senator Fahrenkamp, Chairman
Senator Ziegler, Vice Chair
Senator V. Fischer
Senator Mulcahy
Senator Sturgulewski

CALENDAR

SB 336 An Act relating to state contributions toward the premium for federal crop insurance.

Sharon Barton, Special Assistant to the Commissioner of Natural Resources, spoke in support of the legislation and she proposed an amendment that would authorize the Commissioner to require purchase of Federal Crop Insurance as a condition of a short term loan. Currently, most borrowers are required to purchase Crop Insurance. Putting his authority into statute would provide a more solid base from which to protect the State's collateral.

Senator Mulcahy moved for adoption of a Committee Substitute. There was no objection. He then moved the Committee Substitute with individual recommendations.

The meeting adjourned at 3:16 pm.

STATE OF ALASKA 1984 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date: _____

REQUEST

Bill/Resolution No.: SB 336
 Title: State contributions to the Federal Crop Ins. Prog.
 Sponsor: Moss
 Requestor: _____
 Date of Request: 1-9-84

FISCAL DETAIL

Agency Affected: Department of Natural Resources
 Program Category Affected: Ag Management
 BRU, Program or Subprogram(s) Affected: Agricultural Management

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 84	FY 85	FY 86	FY 87	FY 88	FY 89
OPERATING						
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL	140.0	80.0	90.0			
400 SUPPLIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS						
800 MISCELLANEOUS						
TOTAL OPERATING	140.0	80.0	90.0			
CAPITAL	-0-	-0-	-0-			
REVENUE						

FUNDING: (Thousands of Dollars)

GENERAL FUND	140.0	80.0	90.0			
FEDERAL FUNDS						
OTHER						
TOTAL	140.0	80.0	90.0			

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

SOURCE OF FUNDS TO OFFSET FISCAL IMPACT OF BILL:

ANALYSIS: Attach a separate page for analysis

Prepared By: Bill Heim, Director Phone: 376-3276
 Division: Agriculture Date: 1-19-84

Approved by Commissioner: Alvin D. Arnold, Deputy Date: 1-20-84
 Agency: Department of Natural Resources

Distribution (by Agency preparing fiscal note):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

12/1/83

Alaska State Legislature

BETTYE FAHRENKAMP, Chairman
ROBERT H. ZIEGLER, SR., Vice Chairman
DICK ELIASON
PAUL FISCHER
VIC FISCHER
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Senate

Committee on Resources

MINUTES

January 11, 1984
3:13 pm

House Resources
Room 118, Capitol

MEMBERS PRESENT

Senator Fahrenkamp, Chair	Rep. Ringstad, Co-Chair
Senator Ziegler, Vice Chair	Rep. Shultz, Co-Chair
Senator P. Fischer	Rep. Liska
Senator Mulcahy	Rep. Larson
Senator Sturgulewski	Rep. Cowdery
	Rep. Uehling

CALENDAR

Overview of Federal Crop Insurance Program

Merritt W. Sprague, Manager, Federal Crop Insurance Corporation, U.S. Department of Agriculture, explained how the program protects farmers against the adverse economic impact of severely reduced crop production due to natural disasters. The U.S. Department of Agriculture now subsidizes 30% of the premiums (at the 65% coverage level). The administrative costs of the program are paid from appropriated funds. 1982 was the first year the program was used in Alaska. In 1983, nearly two-thirds of Alaska's barley acres were insured. In 1984, the program will include wheat and oats. In the future, other commodities, including potatoes in the Tanana Valley, could be included.

Jack Knox, Federal Crop Insurance Corporation, Spokane, Washington, described how rates were set in Alaska and how they related to other parts of the country.

Bill Heim, Department of Natural Resources, Division of Agriculture, spoke in support of the program. He felt it would strengthen the Agricultural Revolving Loan Fund by guaranteeing that a producer will always be able to service his debt. The Governor supports the idea of state participation in the program.

Bill Beardsley, Department of Commerce and Economic Development, supported the idea of state participation because of the low administrative costs, the leveraged use of state funds, and the increased incentive to farmers to join. He was concerned that it was limited to barley, wheat and oats, and encouraged the inclusion of hay into the program.

Senator Rick Halford supported the idea of state participation in the program.

The meeting was adjourned at 4:12 pm.

COMMITTEE REPORT
SENATE

FURTHER: FINANCE

Date: _____

Mr. President:

The Committee on RESOURCES has had SB 57

state contributions toward the premium for federal crop insurance; efd.

under consideration and (a majority of the committee) (the committee) reports it back with the following recommendations:

- do pass do not pass
- do pass with attached amendments(s)
- replace with CS for 6 same title
 new title
- and recommends _____
- AND attaches a "Letter of Intent" New Fiscal Note
- reports it back without recommendation
- referred to the _____ Committee

MEMBERS SIGNING
DO PASS

MEMBERS HAVING
OTHER RECOMMENDATIONS:

CHAIRMAN

Federal Crop Insurance Information



**United States
Department of
Agriculture**

**Federal Crop
Insurance
Corporation**

AN INSIDE LOOK AT FEDERAL CROP INSURANCE

A background paper provided by
Merritt W. Sprague, Manager
Federal Crop Insurance Corporation
January 1984

AN INSIDE LOOK AT FEDERAL CROP INSURANCE

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AN INSIDE LOOK AT FEDERAL CROP INSURANCE

I. INTRODUCTION

A. THE IMPORTANCE OF AMERICAN AGRICULTURE

American agriculture profoundly influences the life of each citizen in this country and of many people around the world.

As a business, it is huge, important, and very successful. The following statistics help confirm this:

- American agriculture is the world's largest commercial industry, with assets exceeding \$1 trillion.

- Net exports of U.S. farm products in fiscal 1983 amounted to \$18.4 billion, which considerably reduced the \$70 billion deficit in U.S. nonfarm trade.

- One American farmworker now provides food and fiber for nearly 80 people in this country and overseas. Yet American farmworkers comprise only 3/10 of 1 percent of the world's farm workforce.

- The agricultural industry employs more than 23 million people, or 22 percent of America's labor force.

With statistics like these, every American has a stake in maintaining the financial security of agriculture. That is why crop insurance is so important to the individual farmer as well as American society in general.

B. THE ROLE OF CROP INSURANCE

The business of agriculture is extremely risky. Floods, drought, insects and disease can swiftly devastate thousands of acres of crops. For many crops, a single loss can wipe out the next five years' profits.

Farming is a high-stakes gamble; but farmers now have the opportunity to share part of the risk from natural hazards. Crop insurance spreads the risk of producing a crop among insured farmers across many geographical areas over many years.

The Federal Crop Insurance Corporation (FCIC) has paid losses on more than 120 separate causes. Insurance covers unavoidable losses due to any adverse weather condition such as drought, excessive rain, hail, wind, hurricane, tornado, frost, freeze, winterkill, snow and ice. It also covers unavoidable losses due to insect infestation, plant disease, flood, wildlife damage, fire, volcanic eruption and earthquake.^{1/}

Crop insurance does not cover loss due to neglect, poor farming practices and theft. Nor does it cover financial losses resulting from low crop prices.

Crop insurance is a valuable farm management tool that aids insured farmers in reducing the financial risks associated with abnormal production. It enables a producer to substitute payment of a regular, predictable, annual premium for unpredictable losses. With crop insurance a farmer can count on a given amount of income at a specified time from either actual production or indemnity.

Some producers routinely carry crop insurance so they can more safely forward contract the sale of their crop if an attractive price is offered prior to harvest. Crop insurance reduces the risk of selling a crop that has not yet reached maturity.

^{1/}This list does not apply to all crop insurance policies.

For many producers, borrowing production funds is easier with crop insurance since they can pledge their insurance coverage as loan collateral. In this way, the farmer might possibly pay off the loan without liquidating assets needed in his business.

Crop insurance can be used to safeguard major capital investments that will be paid off with income derived from crop production. In a year of crop failure, crop insurance provides an alternate source of income to help meet loan payment obligations.

In addition, insurance makes sense in conjunction with cash-rented acreage. Insured farmers can be certain they have a source of income to make rental payments in the event of a crop loss.

C. HELPING FARMERS DECIDE

The information in this handbook describes basic principles for crop insurance and is meant to be a starting point for the individual who wishes to weigh the benefits of crop insurance against the risks inherent to farming. The final decision to buy or not to buy crop insurance depends, of course, on the producer's individual circumstances.

Since crop insurance is complex (as is the business of farming), weighing the pros and cons can be difficult. Fortunately, this complicated decision-making process can be made easier through the use of a computer software program called ARCIE: All-Risk Crop Insurance Evaluation.

ARCIE is available in two formats: A simple cash-flow analysis version that takes 10 minutes to run; and, ARCIE Extended, which projects a long-term probability analysis and takes about 45 minutes to run.

ARCIE uses the individual farmer's cash budget, calculates individualized rates and coverages, and makes cash flow projections at various yield levels. It compares having no insurance with 10 different insurance options and

provides illustrative graphs and tables.

ARCIE Extended does all of the calculations described above plus utilizes additional historical data regarding frequency of yield fluctuations to make projections for future yields and income levels.

ARCIE was designed and tested by the Cooperative Extension Service through the Texas A&M and Michigan State University Systems in cooperation with FCIC. Both versions can be purchased for less than \$100 through Texas A&M.

The ARCIE screens and tables are also available in worksheet form (requiring a calculator) from many insurance agents, and ARCIE software can also be obtained for use with pocket computers.

II. THE FEDERAL CROP INSURANCE ACT OF 1980

A. CROP INSURANCE IS NO LONGER A LIMITED, EXPERIMENTAL PROGRAM

Since its inception in 1938, the Federal crop insurance program has been run largely on an experimental basis. During most of the Corporation's history, only a limited number of crops were insurable in a limited number of counties, and public support remained at a low level.

Over the years, however, public attitude has changed toward agricultural aid programs. More emphasis is being placed on increased self-sufficiency for both the Government and the individual.

Thanks to the passage of the Federal Crop Insurance Act of 1980, crop insurance will benefit all taxpayers by providing the means for the Government to move away from costly and inequitable low-yield crop disaster programs toward more self-supporting programs such as crop insurance.

Crop insurance has no individual income limitations or restrictions on amounts of indemnities received. Payments are not contingent upon a specific

area being declared a disaster area. Crop insurance is a sound business program. It enables producers to make provisions in advance to cope with potentially disastrous problems, reducing the need for public relief measures.

The Federal Crop Insurance Act of 1980 had a profound impact on the Federal Crop Insurance Corporation, which administers the Act. The Corporation's scope of activity has dramatically increased because of massive expansion and the use of private industry as a delivery system--two innovations allowed by the Act of 1980.

B. PROGRAM EXPANSION

The ultimate goal of the Corporation is to provide crop insurance programs for all crops in all agricultural counties. In 1984, crop insurance was available on more than 32 major crops and in nearly all of the 3,000 agricultural counties in the United States on one or more crops.

Insurance is available for all crop acreage covered by former disaster programs. Crops which in the past were considered eligible for disaster payments under a program administered by the Agricultural Stabilization and Soil Conservation Service (ASCS) are: corn, wheat, oats, barley, cotton, grain sorghum and rice. Nearly all soybean acreage was eligible for insurance in 1984.

Research and development programs are underway for additional crops and commodities beyond the more widely produced crops now covered; these will be eligible for crop insurance sometime in the future.

C. USE OF THE PRIVATE INSURANCE INDUSTRY

With the greater availability of crop insurance in more counties nationwide, FCIC expects an increase in business volume. To effectively meet these increased demands, the resources of private insurance are being coupled

with those of the Federal Government. The Federal Crop Insurance Act of 1980 mandates the use of the private insurance industry to the maximum extent possible. Many of the private companies have extensive and valuable experience in servicing the rural insurance market.

This cooperative working relationship between Federal Government and the private insurance industry takes two forms: Reinsurance Agreements and Agency Sales and Service Agreements (Master Marketing Agreements). More than 15,000 agents presently sell crop insurance policies under these agreements.

1. REINSURANCE AGREEMENTS

Under reinsurance, insurance companies certified by the Corporation provide insurance marketing, distribution, servicing, training, quality control and loss adjustment functions. The companies also share with FCIC, to a limited extent, in both earnings and losses.

Crop insurance policies are marketed under the names of Multiple Peril, Comprehensive, or the names of individual insurance companies. The policies, however, are the same as those sold by the Federal Crop Insurance Corporation.

FCIC administers and controls the reinsurance program and provides the actuarial structure and direction for research and development of new crop programs. Companies establish their own commission rates for their agents.

2. AGENCY SALES AND SERVICE AGREEMENTS

The Agency Sales and Service Agreement is also known as the Master Marketing Agreement. Under this type of agreement, private insurance companies and associations are offered the opportunity to contract with FCIC to provide insurance sales and services on FCIC paper. They are compensated on a commission basis.

Master Marketers provide contract servicing and quality control. All agents must undergo training and testing to be certified by the Corporation.

3. PROGRAM DEVELOPMENT

Besides serving as a delivery system for the Federal Crop Insurance program, the private insurance industry may now contribute to the development of new crop programs.

Following detailed Government-provided guidelines, companies may submit their proposals for new crop programs to FCIC through "rate bureau" type groups such as the American Association of Crop Insurers (AACI).

FCIC and the Agricultural Extension Service will provide support and personnel. FCIC will retain administrative and quality control over the new programs.

Cranberry growers were the first to benefit from this innovation when, in 1983, AACI established an ad hoc committee to conduct the actuarial research and complete the necessary data base to insure cranberries.

This newest avenue for cooperation between Government and private industry will expedite the development of more types of crop programs to benefit more farmers.

D. THE ROLE OF THE AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE

In a move to more effectively use available Government resources, the Federal Crop Insurance Corporation (FCIC) and the Agricultural Stabilization and Conservation Service (ASCS) signed a memorandum of understanding which outlined major areas of cooperation between the two agencies. As a result, ASCS county offices are now major contact points for information on all crop insurance programs.

ASCS collects data on specific crops grown in each county to aid FCIC in making production determinations for Individual Yield Coverage, a plan by which farmers can customize their coverages based on their own yield histories.

ASCS certifies acreage and production records for individual producers.

About 60 to 80 ASCS county offices sell and service crop insurance in areas of the country where there is little participation by private insurance companies. Generally the areas so serviced have only small areas suitable for the production of insurable crops.

E. THE ROLE OF THE EXTENSION SERVICE SYSTEM

As highly respected members of local farm communities everywhere, County Cooperative Extension Service agents are one of the farmer's primary sources for objective, accurate information on agricultural programs. In this role, Extension agents provide an important avenue for information flow between FCIC and individual producers.

State Extension Service specialists are receiving periodic updates on crop insurance and recent policy changes and participated in a national workshop focusing on crop insurance as a risk management tool. They also help prepare written materials about crop insurance for statewide educational programs and are regularly invited to attend crop-specific training sessions sponsored by FCIC.

In cooperation with FCIC, the Extension Service Systems in Texas and Michigan designed, tested and developed the ARCIE computer software program. ARCIE uses individualized data provided by the producer and helps producers better see how crop insurance can work for them under a variety of circumstances. (For a more detailed explanation of ARCIE, turn to the section entitled, "Helping Farmers Decide.") ARCIE packages have been distributed to all State Extension Service offices and some have trained specialists capable of demonstrating and teaching its use.

III. MAJOR IMPROVEMENTS

Disaster payments were discontinued in 1981. With the new powers allowed

under the Federal Crop Insurance Act of 1980, the Department of Agriculture is making great efforts to provide a more attractive crop insurance program.

A. INDIVIDUAL YIELD COVERAGE (IYC)

Individual Yield Coverage (IYC) is in effect as of the 1984 crop year for the following crops: corn, wheat, cotton, grain sorghum, rice, barley, soybeans, dry beans, sunflowers, rye, flax and oats. It is the only method for insuring cotton and rice. By 1987, it will be the only method (other than Grower Yield Certification) of calculating coverage on all crops.

The plan allows producers with higher yields than the area average to substantiate their yields to improve their own insurance coverage.

Under current IYC, farmers are required to produce verifiable records for production yields for at least the most recent three years of a 10-year base period that the crop was grown. The yield for the years of the 10-year base period without records is determined by multiplying the adjusted county Statistical Reporting Service (SRS) yield used by the Corporation for the 10-year base period by the farmer's index. The farmer's index is determined by dividing the yields from the farmer's records by the SRS yields for those years.

The result is that the amount of coverage available to the more successful farmer is significantly increased without additional premium cost.

Generally, farmers who qualify for higher coverage under IYC will pay reduced premium rates compared to the traditional area-coverage plan.

B. PRODUCERS' REPORTED YIELD OPTION (PRY)

Because many farmers who feed their crop production to livestock or poultry do not keep adequate production records, FCIC has designed a program to help qualify them for regular Individual Yield Coverage.

The program is called the Producers' Reported Yield option (PRY) and is

available on corn, grain sorghum, barley and oats. Under PRY, farmers must produce satisfactory acreage and yield data for at least the most recent crop year, plus all available pertinent records relating to yields for that crop for the prior two years. Crop yield data must be certified by ASCS and approved by FCIC.

Data that can be used to help determine production yields include: sales records, feeding records, elevator tickets, ASCS acreage certification, planting pattern and population data, information on land tillage practices, and most detailed farm accounting or farm management records.

As soon as three consecutive years of acreage and yield data are available, the producers using the PRY option converts to Individual Yield Coverage for determining coverage.

Under PRY, premium rates are the same as for the area-average yield plan; in other words, the per acre cost increases as the guarantee increases.

ASCS will provide the appropriate forms and assist in maintaining records. FCIC will assist at no charge with bin measurements and standing crop appraisals when such help is requested by the farmer.

C. GROWER YIELD CERTIFICATION (GYC)

The Grower Yield Certification (GYC) program began in 1974 on New York and Pennsylvania grapes. It provides insurance protection based upon a grower's actual yield history and to a certain degree was the precursor to the Individual Yield Coverage (IYC) plan developed in 1982.

Premiums for crops insured under GYC are based upon the coverage level selected and the premium rate shown on the actuarial table. Generally, the percentage of premium rate is charged on the basis of the yield established. This differs from IYC in that IYC essentially provides higher coverages on higher proven yields without an increase in the premium rate.

Over the years, GYC has expanded to other crops for which (1) growers' records are generally available, and (2) county acreage and yield data is generally not reliable or statistically significant enough to establish an actuarially sound area coverage plan (See section entitled, "Area Coverage Plan").

If sufficient yield history is not available, FCIC's Field Actuarial Office (FAO) will establish a yield.

Under GYC, the grower must provide all acreage and production records available for the base period for the crop. The base period varies from seven to ten years depending on the crop, but all crops are to eventually "build" to a ten-year base period. Up to 18 years of production records may be accumulated for those growers who have been in the program since its beginning.

If the FAO approves the preliminary yield offered by the grower and his crop insurance agent, the unit coverage is based on that yield. The FAO will usually approve the preliminary yield if records for four years or more are provided, although the FAO has the authority to reduce any yield estimates if less than the total number of base year records are available.

If fewer than four years' of records are provided and the FAO reduces the preliminary yield on any unit, the grower has the option of insuring under an area average plan if it is available for that crop.

GYC is offered for almonds, Eastern and Western apples, Arizona, California and Texas citrus, grapes, table grapes, peas, popcorn, potatoes, sugar beets, sugarcane, sweet corn, canning and processing tomatoes, and walnuts. Certain peanut counties and tobacco counties are also covered under this program.

D. HAIL AND FIRE EXCLUSION

Multiple peril crop insurance policyholders may elect to delete hail and

fire protection from their policy and receive a premium discount. They must, however, purchase at least an equal amount of hail and fire protection from a private insurance company.

(Please note: Multiple peril crop insurance is developed, administered, and financially backed by the Federal Government but sold by private insurance companies. There are, however, private insurance companies who develop, administer, financially back, and sell policies strictly for hail and fire.)

This discount on the multiple peril crop insurance premium is 40 percent of the prevailing average county hail and fire premium but not less than 15 percent. The discount may not exceed 30 percent of the multiple peril crop insurance premium.

To qualify for the discount, the grower must purchase private hail and fire insurance on all of the acreage that is insured by the multiple peril policy. Second, the hail and fire policy must provide a dollar amount of insurance at least equal to or greater than the multiple peril policy. Third, FCIC must be notified in writing within 72 hours after the private hail and fire insurance is purchased.

Some farmers prefer not to make this substitution in coverage. Farmers who feel their risk is great enough may elect to buy both policies for the hail and fire protection. They are entitled to collect indemnity payments from both sources.

E. LATE PLANTING AGREEMENT OPTION

The Late Planting Agreement Option allows insured farmers to have protection when they miss final planting dates because of adverse weather: generally, excessive moisture. The option became effective with the 1983 crop year and is now available in counties and on crops as designated by FCIC's manager.

Previously, crop insurance coverage was rejected on all acreage the insured farmer was unable to plant by the final planting date set by the Corporation. In some cases, FCIC extended planting dates to give farmers kept out of the fields by bad weather a chance to have some crop protection. This action, however, increased the Corporation's actuarial risk.

Under the Option, insured farmers will be able to have their coverage extended on acreage planted up to a maximum of 20 days after the final planting date. The production guarantee on the acreage will be reduced 10 percent every five days through the 20th day following the final planting date. The premium cost will remain the same as on the final planting date.

F. POLICY REVISIONS

The Corporation has been actively seeking the opinions of producers in order to make specific crop policies more attractive and useful to the farmer. Meetings between FCIC management and growers have resulted in fruitful exchanges of ideas that have led to important crop policy revisions.

For example, all crop policies have been reviewed and rewritten in layman's language, using terminology that is simple and easy to understand. Policies have undergone revisions that make them more responsive to the growers.

G. STREAMLINED PROGRAM ADMINISTRATION

FCIC has developed a simplified method of processing documents so that farmers get faster and better service with significant cost savings to the Corporation. This includes a multi-crop application form which reduces paperwork processing time. In addition, the entire data automation system is being updated and expanded.

IV. THE CROP INSURANCE CONTRACT

A. WHO MAY OBTAIN INSURANCE

Anyone can insure their share of an insurable crop that is produced on insurable land. This includes owner-operators, tenants, renters, crop-share landlords, partnerships, corporations and estates. A landlord and tenant may apply for insurance individually. Joint owners and joint operators may insure their combined share.

B. CONTRACTS AND THE GOVERNMENT

Crop insurance policies can be purchased from reinsured companies, master marketing companies, and, in some instances, ASCS county offices. The policies are all basically the same. Costs for each policy will vary by acres insured, the guarantee, and the method of establishing yields (i.e., by county, area in county, or under IYC OR PRY). The subsidy amount, too, will vary depending on the coverage level.

Terms and conditions of the contract are outlined in the application, the policy and the actuarial documents that apply. Contract terms and conditions cannot be altered by any agent or other insurance representative except in a manner specifically provided by the Corporation.

C. CONTINUOUS CONTRACTS

One of the advantages of the Federal crop insurance program is that it provides a continuous contract. Unless the producer gives written notice of cancellation or has not paid the premium due by the specified deadline, the policy is automatically renewed for the next year.

Of course, the farmer has certain responsibilities that must be met each year. They are few, but very important. The insured producer must: (1) Report all of his planted acreage for each insured crop and his share in that crop. (2) Notify his crop insurance agent if the insured crop is damaged.

This must be done before putting the acreage to any other use. (3) Maintain separate production records for each established insurance unit. (4) Pay premiums on time.

The continuous contract does not prevent changes in the insurance policy from year to year. The only restriction is that those changes be made well enough in advance so that the insured may be notified of the changes at least 15 days before the cancellation date for the area. Within the upper and lower limits of the yield guarantee and price elections, protection can be either increased or decreased from the previous year to reflect the producer's current needs, but the change must be done by the sales closing date.

For example, the producer may want a policy that guarantees a different production level per acre or a change in the price election, or a change in both. The farmer has total flexibility in this regard. Many producers do, indeed, find that their insurance coverage needs to be reviewed and revised periodically.

For most crops, insurance attaches at the time of planting and continues until the crop is harvested, destroyed, or removed by a date specified in the policy.

D. CLOSING DATES

In general, applications for crop insurance for a particular crop will not be accepted after a closing date set by the Corporation. The date varies by State, county and crop. These closing dates usually precede the planting period by approximately 30 days.

The main purpose for having closing dates is to allow insurance to be sold before much can be known about planting conditions and crop prospects. Without these date limitations, some producers would take insurance only in those years when the prospects for a successful crop looked unfavorable. In

insurance terms, this results in "adverse selection of risks" or "adverse selectivity." Obviously, this must be avoided to maintain an actuarially sound program.

The general policy of the Corporation is that insurance coverage will be rejected on all acreage the insured farmer is unable to plant by the final planting date set by the Corporation. The FCIC has, however, devised the Late Planting Agreement Option to allow producers to get needed coverage after the final planting dates. (Turn to the section entitled "Late Planting Agreement Option" for a more detailed description.)

E. TERMINATION DATE FOR DEBT

The terms of the FCIC policy provide that the contract will be in effect for the crop year specified on the application and cannot be cancelled by either party for that crop year except for causes such as fraud, concealment, misrepresentation, etc. Otherwise, either party may cancel the contract for any crop year by giving written notice to the other on or before the cancellation date specified in the policy. If any premium remains unpaid on the termination date for indebtedness specified in the policy, insurance will automatically terminate for the next crop year.

F. INSURANCE UNIT

The crop insurance unit serves as the basis for determining loss to an insured crop and any resulting indemnity payment. There is a separate insurance unit for each of the crops for which the insured has a 100-percent share. In some situations, an insured crop may be divided into more than one insurance unit. Separate insurance units may be established for each different landlord or tenant.

Further unit division beyond that allowed by the policy is regulated by established FCIC guidelines and must be supported by adequate records. These

guidelines sometimes permit the establishment of additional insurance units to reflect varying management practices (i.e., irrigated, non-irrigated). Further, separate, readily identifiable tracts of farmland may qualify as separate insurance units.

The insurance policy guarantees total production on a specific unit as defined by the Corporation. Losses are adjusted on a unit-by-unit basis so that indemnities can be collected on one part of a farming operation but not on another.

G. ACREAGE REPORTS

One of the key requirements of the insurance contract is that the insured file an acreage report each year showing the location of the crop, number of acres, share and date of planting. This report must be submitted promptly after the completion of planting and is the basis for the premium charged and the amount of protection provided. Insurance does not attach to acreage planted too late to produce a normal crop except for that acreage covered by the Late Planting Agreement.

Obtaining all of these reports, promptly and accurately, is a big task. The available time for this work is short, and many crops have a growing season of only 90 to 100 days.

Insureds who fail to accurately report their acreage and interest in the given time frame cannot later be given the opportunity to correct the failure or error. To do this would allow insureds to decide on the amount of insurance after a loss becomes apparent or probable--which over time would adversely affect premium rates.

Insurance contracts provide that if the report has not been made within a specified time, the acreage and share can be excluded from insurance protection. The exclusion practice is generally followed if the crop is

damaged. If the acreage or share in the crop is underreported, and the error is not discovered until after the crop is damaged, the amount of insurance will not be increased. In the final loss settlement, the insured is paid an indemnity on a proportional basis, fairly reflecting the part that he reported.

H. COVERAGE PER ACRE

The insurance guarantee or coverage per acre differs so widely over the country and for different crops that only general information can be given here. Each insured is provided specific information at the time an application is taken and annually thereafter when changes are made.

Here is an important point regarding costs of varying guarantees per acre. Take for example a coverage of 15 bushels per acre. The 15th bushel has the least chance of being produced, so it is the most expensive bushel to insure. The 14th has a little better chance of being produced and is a little less expensive to insure. The 13th bushel, in turn, has an even better chance of being produced than the 14th, and consequently, is even less expensive to insure.

Following this reasoning, 10 bushels can be insured for a premium less than two-thirds the premium for insuring 15 bushels. So while the higher coverages are attractive for better protection, the lower coverages are attractive for the lower premium costs.

The Federal Crop Insurance Act sets an upper limit on the amount of insurance: It shall not exceed 75 percent of the average yield for the farm over a representative period of years.

I. AREA COVERAGE PLAN

Under the traditional area average coverage plan (which is being replaced by Individual Yield Coverage), county figures are first developed by actuarial specialists in the FCIC Actuarial Division. These figures are based in part

on statistics from agencies within the Department of Agriculture and the Census Bureau. Coverage figures are in bushels or other commodity units. Three levels of coverage--50, 65 and 75 percent of the county average yield--are offered for most commodities.

After the average yield guarantee for the county is established, an FCIC underwriter in the area makes such variations in coverage as are warranted between different parts of the county.

The main considerations are the productivity of the land and the management abilities of the operator. Yield records, soil maps, and other sources of information are used in classifying the county into areas, some with higher coverages than others. An area does not have to be contiguous land; it may consist of land with the same productivity in different parts of the county. The average of the coverages established for the different areas, weighted by acreage in these areas, cannot exceed the county limit established by the Actuarial Division.

There are some exceptions. In a number of counties, coverage is established on an individual farm or producer basis by listing the name of the owner, operator, or farm based on past production history or appraised productivity of each. In practice, a number of different coverage classifications (usually 5 to 10) are established for a county, and each person or farm is assigned one of these classifications. In some cases the area method is followed in establishing coverages, but a supplemental listing of farms or producers is prepared providing exceptions for individual farms or producers. This is used where individual farms or producers are known to be significantly better or poorer than the area in which they are located.

Consideration is given in establishment of coverages to local knowledge about the different land areas, the statistical records of past production,

premium limits, and the restrictions in the legislation. Different coverages often are established by farming practices such as irrigation, summer fallow, etc.

In the case of some crops (e.g., cotton and sugar beets) the coverage is progressive, increasing by stages through the season. Such guarantees reflect the producers investment in his crop at varying stages of growth.

J. COVERAGE LEVELS AND PRICE ELECTIONS

Crop insurance allows farmers the flexibility of selecting the coverage level that meets their individual financial needs in a given year. For most crops, there is the choice of buying a policy that guarantees 75 percent, 65 percent, or 50 percent of the historical average yield in the participant's county, risk area within a county, or the producer's actual yields.

In addition to the coverage levels, the producer may select one of three levels of price elections.^{2/} The options on price elections are determined annually by the Corporation. The highest price election is at least 90 percent of the anticipated market price. Price elections are based on available information from Government and non-Government sources:

V. THE PREMIUM

A. COST

The premium is based on the production guarantee and the price election that a producer selects, and on the crop production risks on a particular unit. For this reason, the cost of carrying crop insurance varies from county to county and from farm to farm. For each geographical area, rates are

^{2/} Sometimes more than three price elections are offered for certain crops. Raisins and Texas citrus offered four levels for 1984.

continuously updated to reflect yield and loss experience.

Individual premiums are reduced or increased on the basis of the number of years of continuous favorable or unfavorable experience and the relationship (called "loss ratio") between premiums paid and indemnities collected by an individual producer.

The premium rate adjustment table has been designed to reflect individual policyholders' loss experience. Policyholders who have small or no losses can qualify for as much as 50 percent premium reduction. This can substantially reduce the per-acre cost of carrying insurance and provides more protection per dollar spent. Those who experience frequent or large losses over a number of years will pay higher premiums.

Crop insurance bases the loss on the net effect of favorable as well as unfavorable weather factors. Obviously this is less expensive than just to consider insurance against only the unfavorable factors. The Corporation does not guarantee the full usual production, but only 75 percent or less of the average over a representative period of years. Thus, the producer bears the loss until the yield drops 25 percent or more below the usual production. It would be much more expensive to insure him for all the decline in yield below the longtime average yield and would require very high and impractical rates.

B. AFFORDABILITY

Thanks to a subsidy provision in the Federal Crop Insurance Act of 1980, crop insurance is more affordable for more farmers.

For the farmer who selects the 50 percent or 65 percent level of coverage, the premium is reduced by 30 percent. For the farmer who selects the 75 percent level of coverage, the premium reduction is the same dollar amount as if he had selected the 65 percent coverage level. In all cases, crop insurance premiums paid by the farmer are fully tax deductible as a farm

business expense. Depending on the producer's tax bracket, this can substantially reduce the after-tax cost of insuring a crop investment.

C. PREMIUMS AND THE LAW

The Federal Crop Insurance Act provides that the Corporation shall fix adequate premiums for insurance at such rates as the Board of Directors deems sufficient to cover claims for crop losses and to establish a reasonable reserve against unforeseen losses; the premium rate does not include any amount for the cost of operating and administrative expenses. Instead, the law authorizes an annual appropriation for operating and administrative expenses.

The original Federal Crop Insurance Act provided that the Corporation should fix adequate premiums on the basis of the crop loss experience on the insured farm with certain adjustments. By emphasizing premiums based on loss experience, the Act thus encouraged individual farm rating. This was in line with the proposals of a President's Committee on crop insurance which avowed that, under such a plan, competent and industrious producers would not have to pay for the losses of the negligent and less competent producers; producers on good land would not be required to pay for losses of producers on poor land; nor would areas of high and regular production have to pay for losses of areas of low and uncertain production.

The basic objective of charging each producer a premium according to his own risk or his own class of risk has been retained generally in the Corporation's actuarial work. In establishing premium rates, the Corporation relates the premium to the risk assumed to the maximum extent practical.

D. METHOD OF ESTABLISHING PREMIUMS

The processes by which the premium rate is determined are similar to those used in establishing coverages.

The Actuarial Division establishes the average premium rate for the county. The field underwriting offices adjust the rate to the classified risk areas in the county. The underwriting office may end up with more than one premium rate for a county depending on the number and type of risk areas.

The average premium rate for the county is based upon expected losses over a large number of years and considers all the provisions of the contract. The rate setting process requires analysis of all known data relating to the risks assumed and analysis of all other factors which contribute to expected losses. Premium rates are affected by contract provisions defining required management practices, insurance units, named perils, loss adjustment procedures, and activities of FCIC that insure compliance.

The overall objective of the rate-setting process is to establish rates which are actuarially sufficient (equal to the expected losses over time) yet equitable between producers.

Final approved coverages and premium rates for areas are listed in the county actuarial table and, together with the official maps and lists of the area, the table becomes an official record of insurance terms for land in the county. These documents are kept on file in the service office and are available for inspection by insureds.

E. THE PRODUCER AND THE PREMIUM

In submitting an application for insurance the producer agrees to pay the premium each year. After the acreage report is submitted, the premium is computed and the insured is billed for the amount near harvest time.

A premium adjustment table based upon individual experience is part of the insurance contract. It provides for a maximum reduction of 50 percent in premium for favorable continuous insurance experience and a maximum increase

of 300 percent for unfavorable insurance experience on an individual contract basis. No adjustments for unfavorable insurance experience will be made the first year after the insured has a loss.

The premium charge would be 90 percent of the applicable premium if the insured has had 4 years of favorable continuous experience through the previous year and a .35 loss ratio.

If an insured has accumulated 3 loss years in the last 15 years with a 1.50 loss ratio,^{3/} the premium charge would be 108 percent of the applicable premium.

F. UNPAID PREMIUM PENALTY

In 1982, FCIC's Board of Directors approved the implementation of an interest rate provision for all crop insurance policies. The language of the provision, as amended, reads: "Interest will accrue at the rate of one and one-half percent simple interest per calendar month, or any part thereof, on any unpaid premium balance starting on the first of the month following the date of the first premium billing."

A 30-day grace period is provided in which the policyholder may pay premium without penalty of interest, since interest does not attach until the first day of the month following the date of the premium billing. Billing dates have been established for all policies and generally coincide with harvest of the insured crops.

^{3/}That is, the insured has received \$1.50 in indemnity payments for every \$1.00 of premium paid.

VI. LOSSES AND INDEMNITIES

A. AMOUNT

The producer selects the price per bushel, pound or ton he will be paid is the insured crop falls short of the guaranteed yield. This is done at the time the insurance is purchased. In most cases, the producer can select one of three dollar amounts for each bushel, pound or ton lost. The bushels, pounds or tons lost multiplied by the dollar amount the producer selects determines the amount of indemnity he will be paid.

The loss is the difference between the actual production (if any) on the insured unit of land and the production guaranteed by the policy.

Example: If the production guaranteed on a particular unit is 10,000 bushels and the farmer produces 4,000 bushels, the loss is 6,000 bushels multiplied by the price election selected by the farmer. For example, if the farmer selected the \$3 per bushel price election, the indemnity is 6,000 bushels x \$3 or \$18,000 at 100 percent share minus any premium due on the contract.

The insurance policy guarantees total production on a specific "unit" of land. Losses are adjusted on a unit-by-unit basis, so that a farmer may experience a loss and collect an indemnity on one part of his farming operation but not on another. Premium cost bears a direct relationship to the price election chosen.

B. ASSIGNMENT OF INDEMNITY

Crop insurance can be used as collateral for loans or credit. Crop insurance contracts contain a provision whereby the insured may make an assignment to a creditor. In such circumstance, if a loss occurs, the indemnity is paid to the creditor who has the assignment.

This provision of the insurance contract helps many producers improve their credit, and in some areas it has been the major motivation for many producers to take crop insurance. Creditors who may be given assignments include landlords, lenders, merchants, etc. The assignment must be filed prior to processing any claim and will be accepted only if no previous assignment on the crop is on file.

C. TRANSFER OF INSURED SHARE

If the insured transfers any part of his share in an insured crop in any crop year, he may, with approval, transfer his right to an indemnity for that crop year on the acreage involved to the person who acquired the share in the crop by virtue of the transfer. Any indemnity paid to a transferee is subject to outstanding assignment to creditors.

D. QUALITY PROTECTION

The insured may suffer a loss in quality as well as a loss in quantity. A loss in quality will generally be reflected in the price at which the product can be sold on the market. There are a number of methods used, depending upon the commodity, to reflect this type of loss. Essentially, these methods reduce the amount of damaged production to be counted against the production guarantee, thus increasing the indemnity payable.

Quality and quantity losses are not settled separately but are combined. High production may offset some or even all of the loss from poor quality. Loss in quality can hurt producers as much as loss in quantity of production. Its inclusion in the insurance protection is important.

E. NOTICE OF DAMAGE OR LOSS

In case of damage or probable loss, written notice must be given if, during the period before harvest, the damaged crop will not be further cared for or if acreage is to be put to another use.

Under a newly-implemented policy, FCIC requires its policyholders to report crop damage or loss no less than 15 days before harvest begins for most field crops. In cases where losses are not apparent until harvest begins, notice of damage will be given immediately on any unit on which a claim is to be filed. If harvest is completed before loss is apparent, the Corporation asks that the crop residue be left for 7 days after harvest. As an alternative, a representative sample of the unharvested crop--at least 10 feet wide and running the entire length of the field--may be left intact for a period of 15 days from the date of notice. This does not apply if the Corporation gives written authority to the insured to do otherwise.

F. ADJUSTMENT OF LOSSES

Adjustments can be made anytime during the growing season when a loss occurs. Most adjustments on guaranteed production crops are made after harvest. The adjuster assists the insured in establishing all the production harvested and any potential production on acreage unharvested, determines the actual acreage for the crop, and verifies that all information is correct. This information is then recorded on a prescribed form and processed for payment.

If the total production on all the acres in the unit is less than the guaranteed production for the unit, the difference between the guarantee and the total production is the amount of loss.

If it is determined that any of the loss is due to an uninsured cause or failure to follow a recommended farming practice, the adjuster appraises the quantity of production lost due to such causes.

Because of the skill and judgment required, persons selected for loss adjustment work must have actual farm backgrounds or formal education in the agricultural field. Furthermore, loss adjusters for FCIC are not allowed to

work simultaneously as sales agents and loss adjusters in order to eliminate all possible conflict of interest--i.e., loss adjusters will be prevented from making actual claims decisions on contracts they previously sold.

VII. SPECIFIC CROP PROGRAMS

A. WHEAT AND MOST ANNUAL FIELD CROPS

Wheat insurance represents a large portion of all crop insurance sold. In general, the producer is guaranteed an amount of production in bushels. If production is less than the guarantee, the producer is paid for the shortage at a price per bushel selected before planting from several optional prices. The producer may also choose from three levels of production guarantees.

This same general method of determining the indemnity (with some variations) is used in the insurance contracts for barley, oats, corn, grain sorghum, rice, rye, flax, dry beans, soybeans, peanuts, peas, potatoes, forage production, sweet corn, sugarcane and sunflowers. Cotton, sugar beets and tomato losses are computed, somewhat in the same manner, except that pound or ton guarantees are progressive by stages of production.

B. CORN

Among the most significant changes in the new corn policy is the elimination of the provision for reduction of coverage when acreage is unharvested.

The substitute crop provision also has been eliminated since very few substitute crops are planted due to the limitations resulting from herbicide usage.

A provision has been added to clarify appraisals, insurance period, and notice of loss in counties with both grain and silage guarantees.

A replanting provision was added to cover the actual cost of replanting a corn crop. The replanting indemnity will be paid if at least 10 acres or 10

percent of a unit is replanted and potential production is appraised at less than 90 percent of the guarantee.

The policy contains a formula for determining the amount of poor-quality production to be counted based on a value comparison with U.S. No. 2 corn. (FCIC defines poor quality corn as having over 15 percent kernel damage, or over 40 percent moisture, or less than 40 pounds per bushel test weight.) Similar provisions apply to most annual field crops.

C. COTTON

Of major importance to cotton producers will be an increase in coverage levels brought about by changing the stage guarantees. Growers felt that the first stage guarantee in the old policy was inadequate to cover actual production expenses. They objected to the fact that the third stage guarantee could seldom be realized due to the reduction in indemnity for unharvested acreage.

FCIC has eliminated the reduction in guarantee for unharvested acreage and combined the second and third stage guarantees. Coverage will be established at the full guarantee at the second stage.

The first stage guarantee is 60 percent of the full coverage.

The first stage ends after blooms are shed or 50 days after the final planting date, whichever comes first.

D. SOYBEANS

The major change for the soybean policy is the elimination of the coverage penalty for unharvested acreage and the limitation of the replanting payment to the actual cost of replanting.

E. GRAPES

Grape insurance covers loss caused by adverse weather conditions, flood, fire, wildlife, and earthquake.

The insured selects a price per ton for valuing production. Losses are computed by subtracting total production from the guarantee for the unit and multiplying the result by the price per ton for valuing production.

F. TOBACCO

Another method of multiple peril crop insurance is used for tobacco. In the case of many crops the quality is more or less uniform except in the event of some special damage. However, tobacco normally consists of leaves of different qualities.

Most of the tobacco in the United States is sold in auction markets with buyers bidding for each basket. A buyer determines the quality of the tobacco by inspecting it in the basket and generally the price received by the producer reflects that quality. The price, weight, and amount received for each basket is a matter of record at the warehouse where the tobacco is sold and the poundage sold is recorded at the local Agricultural Stabilization and Conservation office.

Tobacco insurance coverage and rates are a compilation of the value and weight of the crop. Indemnities for tobacco insurance are determined by subtracting the value of the tobacco produced from a monetary amount of insurance, which is shown on the county actuarial table.

The amount of insurance is first determined in pounds and then converted to a dollar coverage by multiplying the pounds by the average support price for all grades. The support price is the price which the Government will pay for the tobacco if private buyers will not take it at a higher price.

Insurance is offered on all burley under a poundage quota plan: a percentage of the poundage for the farm (which the grower is permitted to market under a price support program administered by the Agricultural Stabilization and Conservation Service) multiplied by the support price per

pound less warehouse charges. Some types of tobacco do not have price supports; these are insured under a guaranteed production plan similar to other field crops.

Since tobacco losses cannot be determined until after the insured tobacco is sold (except in the case of a total loss in the field), adjustment of losses cannot be performed immediately after harvest as for other crops. In fact, the production process for tobacco does not end upon harvest. The green tobacco plants are field-cured or leaves are hung in the barn and are cured by air or by application of heat. Insurance on other crops terminates upon removal from the field, but insurance on tobacco continues while in the barn.

G. SUGAR BEETS AND SUGARCANE

In the case of sugar beets and sugarcane, the guarantee in tons is stated on the actuarial table. For sugar beets, the stages of production also vary the guarantee. The producer chooses a price in dollars per ton at which the indemnity, if any, will be computed. The loss is then computed by multiplying the acreage by the tonnage guarantee per acre, subtracting from this figure the total production to be counted, and multiplying the result by the price chosen by the insured for computing the indemnities. Quality of sugarcane insured is by the guarantee being in tons of standard sugarcane, and of sugar beets by the guarantee being at the percent of sugar shown on the actuarial table.

H. TREE CROPS

The Corporation's first experience with tree crops was insurance of citrus in Florida in 1951 in one county. In 1984, tree crop production insurance is offered on almonds, English walnuts, apples, citrus and peaches. The usual insurance plan used for field crops is not used for tree crops. The productivity of trees varies as a result of care given them during the current

year and preceding years and damage from weather in preceding years.

Producers of tree crops are usually interested in insurance against a few specific risks, principally freeze, hurricane, tornado, or windstorm, and sometimes hail. Since tree crop insurance covers only specific risks there may be years with no losses and other years with serious losses. This occasionally occurs with field crops under the contracts offered; however, it is the exception rather than the rule. Thus, the function of specific risk insurance on tree crops is primarily the distribution of losses over a period of years. For example, in the Florida citrus insurance program, there were only very minor losses during the first six years. But heavy losses the seventh year totaled more than the premiums for the first seven years.

Damage from specific risks can often be estimated by sampling processes after the damage occurs. This makes it possible to insure against one or two specific risks by the percentage of damage method. Under the percentage of damage method used for Florida citrus, the insured chooses a dollar amount of insurance per acre from among several options. The amount of insurance for the insurance unit is determined by multiplying the acreage by the dollar amount of insurance per acre. This figure is multiplied by the percentage of loss in excess of the applicable deductible.

The Corporation's peach insurance program is based on a dollar amount of insurance per acre; however, indemnities are not computed by the percentage of damage method. The amount of insurance offered per acre is based on the expected production from the trees and the producer has three levels of insurance to select from--high, medium, and low. Under this program indemnities are computed by subtracting the dollar value of the production from the dollar amount of insurance.

Almonds, apples and citrus in California and Texas operate on a guarantee

which is established from the producer's records.

I. TREE INSURANCE

In Texas, an experimental citrus tree insurance program provides protection against damage or loss of citrus trees from freeze, flood, excessive moisture, hail, hurricane, or tornado.

In the past, FCIC received many requests for insurance on fruit and nut trees. Until now, however, the Corporation only offered insurance protection on the production of the trees, but not on the trees themselves.

Specifically, the new citrus tree insurance program is available for (1) early and mid-season orange trees, (2) late season orange trees, including Temples, and (3) grapefruit trees excluding Star Ruby grapefruit trees, and (4) Star Ruby grapefruit trees. The trees must be intended for the purpose of harvesting citrus as fresh fruit and/or juice.

At some later date, the tree insurance program may be expanded for additional fruit or nut bearing trees, such as almonds, apples, and peaches.

Most requests for tree insurance originated in the Lower Rio Grande Valley of Texas. Therefore, the new program began in Cameron, Hidalgo, and Willacy Counties. The average liability is estimated at \$2,000 per acre.

When bearing trees are damaged or lost, it takes several years to recover the production level. Additional costs are involved in replacing damaged or lost trees.

J. RAISINS

Raisin insurance is a different type of insurance from any other crop insurance program. Insurance is not against damage to the growing crop, but is against rain damage while the grapes are being dried on trays in the field. Under this program, a dollar amount of insurance per ton is established. Losses are determined by multiplying the tonnage placed on trays

for drying by the dollar insurance per ton and deducting from this figure the value of the raisins produced. In establishing the value of the raisins, consideration is given to the market value of the raisins, cost of reconditioning, and uninsured causes of loss.

K. FORAGE SEEDING

Another specialized insurance program is forage seeding. This program provides insurance to cover the cost of establishing a stand of forage and is offered in only a few counties at the present time.

VIII. PILOT PROGRAMS

A. PREVENTED PLANTING PROGRAM

The Prevented Planting Program is designed to cover prevented planting due to excess moisture. This new pilot program began with the 1982 crop year.

The following states and counties were selected for the experiment based upon recommendations from ASCS as well as a review of prevented planting payments made under the Farm Act of 1977.

- o Indiana - Posey and Vanderburgh Counties
- o Minnesota - Marshall and Kittson Counties
- o Mississippi - Leflore and Sunflower Counties
- o Ohio - Brown and Highland Counties
- o Wisconsin - Eau Clair and Clark Counties

ASCS personnel in these counties handle this program. FCIC prepared the regulations and actuarial material for the program, and provides the loss adjustment. ASCS sells and services the contracts.

The insurance provides protection against unavoidable prevention of planting of insured acreage due to excessive moisture conditions. The contract does not cover prevention of planting due to neglect on the part of the insured or failure to follow recognized good farming practices. The

insurance does not protect against the backing up of water by governmental or public utilities dams or reservoir projects, or any cause other than excessive moisture.

The insurance covers cultivated acreage intended for planting. This does not include land on which perennial forage crop is being grown or land growing a crop that was planted prior to the acreage reporting date.

Land will not be covered by insurance if a prevented planting indemnity was received covering that land the preceding crop year and the land has not been worked prior to October 31 of that crop year. Also not included is land which was not planted in order to comply with any other USDA or state program.

At the time of filing the application, the insured is responsible for reporting all cultivated acreage intended for planting in the county for the crop year. The insured must report his share in the insurable crop at the time of reporting. This report must be submitted annually on or before the acreage reporting date of January 31.

In case of prevented planting, the insured must give written notice to the Corporation at the ASCS county office no later than five days after the prevented planting date.

B. ALASKAN BARLEY

FCIC began insuring barley in Alaska for the 1982 crop year.

Of the grains grown in Alaska, barley is showing the most promise. It is well-adapted to far-north environments because of its ability to mature at cool temperatures and its short growing-season requirements.

Wheat and oats are being grown on an experimental basis, and FCIC is studying the feasibility of insuring these crops in Alaska in the near future.

C. HYBRID SEED

In 1984, this pilot program is available only to Illinois growers

producing hybrid seed corn under contract to commercial seed companies.

The insurance protects against unavoidable loss of production resulting from hail, wind and other adverse weather conditions, fire, insects, plant disease, wildlife, earthquake, and volcano. Protection is not provided against the use of experimental, unadapted, incompatible, or other genetically deficient male or female seed. Female seed only is insurable.

While the 1984 program is available in only 69 counties in Illinois, it is expected to be expanded in the near future to more areas and to more types of hybrid seed, such as grain sorghum and sunflowers.

IX. ADMINISTRATIVE ORGANIZATION

The Secretary of Agriculture is responsible for the administration of the crop insurance program through the Board of Directors and the manager of the Corporation, both appointed by him.

The Board of Directors has seven members. Three are from within the Department of Agriculture: the manager of the Corporation, who is by law a member, and two other high officials at the assistant secretary or under secretary level. Three farmer policyholders from different geographic areas of the country also hold positions on the Board. These farmers must represent diverse agricultural interests. In addition, one person experienced in crop insurance who is not employed by the Federal Government serves on the Board. Board members are appointed by the Secretary of Agriculture and serve at his pleasure.

The Board of Directors reviews the Corporation's policies and objectives and recommends any needed policy changes in ongoing programs. It holds the highest policy making authority in the Corporation and is responsible for the overall performance of the Corporation.