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Some Growers will be Caught "Napping"[1]

I asked the state Farm Service Agency (FSA) the following questions and these are the answers, direct from Washington policy makers.

Question 1: *Qualifying Loss definition in the Federal Register, states "A farm not located in a disaster county or a county contiguous to such a designated disaster county that has an overall production loss greater than or equal to 50 percent of the normal production on the farm (expected revenue for all crops on the farm) due to a disaster". Does this mean the producer must have received a 50% production loss on a crop of economic significance to be eligible for SURE? Or could the producer be eligible with a 25% production loss and a 25% revenue loss? Or could a producer become eligible with a 0% production loss and a 50% revenue loss?*

Answer 1: Remember this 50% loss must be determined for the whole farm all crops on the whole farm. So for example if I have five crops the overall loss on the five crops must exceed 50%. Each crop does not need to suffer a 50% loss the overall loss for all crops must meet a 50% loss. One crop may only have a 10% loss, and another 75% loss. To make the comparison between crops we calculate everything out to dollars so they can be compared. What we are

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comparing is the total expected revenue or value from all crops on the farm to the actual revenue or value of the crops on the farm to determine whether or not the 50% loss was met. Revenue loss does not play a role in this calculation only the loss of production adjusted for quality would apply. The same price used to determine the expected value should be used to determine the actual value.

Question 2: *Have a multi county producer in Kansas and Nebraska. In Kansas the producer purchased NAP coverage on his alfalfa crop 360 acres, on a separate farm administratively carried in Nebraska the same producer has 20 acres of alfalfa, did not purchase NAP coverage in Nebraska as the alfalfa is not economically significant to his farm in Nebraska. In this case we are looking at BIG Farm picture Alfalfa is a crop of economic significance so by the producer not purchasing NAP coverage on his alfalfa acres in Nebraska he has not met RMPR correct? Would you agree with this analogy?*

Answer 2: Yes this producer did not meet RMPR, you should be determining crop of economic significance on all acreage of the crop on the SURE farm not by county.

Art's comments: I am sure there will be a number of farmers who think they are covered with SURE, but missed one of these NAP rules. I had this same Noninsured Crop Disaster Assistance Program (NAP) question from a farmer on the KS-NE line too but as it turns out he will not be eligible for SURE. Unfortunately, he paid the NAP fee in only one of the two states. This would also apply to farmers crossing county lines.

I had been lead to believe a 50% revenue loss was require for farmers to receive SURE payments with crop losses but not farming in an approved disaster or contiguous county. From the above answer it is clear FSA is holding price constant, therefore to gain SURE eligible in a county not approved for disaster aid will require an all crop average yield loss below 50 percent. This average 50% yield loss is more difficult to meet than a 50% revenue loss. Therefore, one would expect that most disaster payments will be made in counties approved for disaster aid. Because meeting this yield test is more difficult, this will reduce the amount of basis risk covered by SURE in the Group Risk Plan (GRP) and Group Income Risk Protection (GRIP) contracts.

There is an ad hoc disaster program working its way through Congress that may pay if SURE does not pay. I am not sure if ad hoc disaster aid only applies to 2008 or does it apply to 2009 and 2010? It is too late to pay NAP fees or buy crop insurance on a crop that is not *de minimis*. I am hearing from farmers that many county FSA offices simply did not have "approved" information for growers to make sound decisions on NAP fees and other issues. An ad hoc disaster program will only add additional work load on to a county staff that is probably felling over stressed now. One could ask the question rather than create a new disaster program why not just fix the holes in the current SURE disaster

program? SURE is an all crop revenue guarantee and for many farmers will provide some protection for shallow losses. No need to convince me that a SURE disaster program based on revenue coverage is a better concept than the traditional ad hoc disaster program that was based on a yield trigger. However, there are a few holes in the SURE safety net that need mending.

I have also been getting questions on how the GRP and GRIP plans will work with SURE. The short answer is I do not know but I am trying to get a defined answer. Under current procedure the Risk Management Agency (RMA) is down loading all of the crop insurance coverage to FSA. FSA is then multiplying the total dollars of coverage on the farm times 115% (120% for 2008) to set the SURE guarantee and this works for any aph based insurance contract. However, GRP and GRIP have a disappearing deductible, therefore a 70% GRP contract guarantees farmers the same total dollars of coverage as a 90% GRP contract (This is also true for Group Risk Income Protection (GRIP)). In addition losses are trigger based on county yields that are less variable than farm yields used to trigger payments on an aph based policy.

My guess is FSA is using an "adjustment" for the GRP/GRIP insured farmers. If the aph rules for SURE were applied to GRP then farmers in high risk growing regions could purchase a 70% GRP contract and receive the maximum 90% SURE revenue disaster guarantee that is loss adjusted base on farm level yields rather than aggregated county yields, and in many cases pay less than a $1 an acre in premiums. A 70% GRP contract would require a 30% loss in the county yield to trigger even a 1 cent payment so most of the risk would be shifted from RMA to FSA. However, remember that SURE only pays 60% of the claim, but a 70% GRP combined with SURE is still very "cheap" insurance in locations where private hail premiums can exceed $20 per $100 of coverage.

I don't think policy makers intended to shift the risk from reinsured crop insurance products to a "free" FSA disaster program. So I am guessing there is some procedural adjustment for GRIP/GRP insured farmers on their SURE benefits.