

## **2002 Cotton - CropRevenue Coverage (CRC) Underwriting Rules**

1. CRC calculates premiums charged annually for the insurance at the applicable CRC rates for the current crop year. The CRC premium is based upon the CRC Base Rate, CRC High Price Factor, CRC Low Price Factor, Base Premium Rate, CRC Base Price, and any other applicable factors found in the CRC Actuarial Documents. It also includes the Application, Approved Yield, and an Acreage Report submitted by the insured to the insurance company. The company will invoice the insured on a date specified in the Special Provisions of the Actuarial Document for the total actual premium and administrative fee(s). The Producer must pay an administrative fee each crop year of thirty (\$30.00) dollars per crop per county.
2. CRC uses the **CropRevenue Coverage Continuous Rating Premium Calculation Guide** and the **CropRevenue Coverage Premium Calculation Worksheet** to estimate the producer-paid premium for insurable crop acreage.
3. The insured must submit a CRC application to the agent no later than the applicable sales closing date. The company must receive all timely dated applications within twenty (20) days of the sales closing date. The company will not accept and will return applications received more than twenty (20) days after the sales closing date. Clients requesting to change from other FCIC-subsidized coverage to CRC coverage must complete an application for CRC and attach a signed request to cancel the existing FCIC-subsidized coverage.
4. The CRC policy is a continuous policy and provides coverage for the succeeding crop year unless canceled by a time specified in the policy.
5. CRC serves as an alternative policy to other FCIC-subsidized coverages. Producers must insure all acreage of the specified crop in the county. High-risk land designations are insurable under CRC and rated according to the methodology contained in the **CropRevenue Coverage Continuous Rating Premium Calculation Guide**. The insured does have the option of excluding any high-risk ground from CRC coverage and insuring it with an MPCl CAT policy with the same insurance provider. The insured must complete a High-Risk Exclusion form and CAT application for the high-risk ground by the sales closing date. Agents must submit these documents to the company within twenty (20) days of sales closing.
6. Written agreements may apply to CRC for **rating purposes**.

The insured must request a written agreement to insure acreage in counties without a CRC program, to receive a rate reduction on land classified as high-risk, or to insure unclassified land. Acreage in counties without CRC program may be insured using a written agreement only if the county without the CRC program adjoins a county with a CRC program for the applicable crop. The reinsured company will transmit the request to the appropriate RMA Regional Office (RO). To ensure the rates used are actuarially appropriate, the RO will determine, from the physical characteristics of the acreage, the farming practices to be used, the risks involved, and whether there is a similar situation in a county for which a CRC rate has been provided. If a similar situation exists in a county where a CRC program is available, the insured can obtain insurance with that CRC rate. If a similar situation does not exist, the request for a written agreement will be denied.

The applicable crop specified in any written agreement must be eligible for CRC coverage.

Each written agreement will be valid only for one crop year. If a written agreement is not specifically renewed the following year, insurance coverage for subsequent crop years will be in accordance with the printed policy.

7. **Written unit agreements** may apply to CRC for **unit division purposes**.

The insured must request optional units by written agreement to create optional units across section lines or from oversized units. The reinsured company will determine whether the acreage is located in a high-risk area and if so, the written agreement will be denied. The total acreage in the oversized section will be divided into parcels of not less than 640 acres each. Physical features such as canyons, lakes, rivers,

mountains, or irrigated systems will be used to set the boundaries for the parcel. Each parcel will be considered to be a separate section for the purposes of determining optional units only. Such features must present a significant obstacle to farming and not be under the insured's control. Such written agreements must follow the guidelines for written unit agreements established by the Written Agreement Handbook (FCIC 24020).

8. The producer must report APH information by the earlier of forty-five (45) days after the cancellation date or the acreage reporting date to establish yield information and unit structure. The Special Provisions of the current crop year's Actuarial Document shows the applicable acreage reporting date.
9. CRC is an insurance program that guarantees a stated amount of revenue called the Final Guarantee. CRC covers revenue losses due to a low price, low yield, or any combination of the two. Since the protection of producer revenue is the primary objective of CRC, it contains provisions addressing both yield and price risks. Five key variables are Approved Yield, Coverage Level Percentage, Base Price, Harvest Price, and Production to Count.
10. CRC's **Approved Yield** is the historical average amount of production per acre in the insured unit. It uses the producer's production records or yields assigned by the Federal Crop Insurance Corporation (FCIC). We use at least four crop years of yields to obtain the Approved Yield.
11. The available CRC Coverage Level Percentages for cotton are 50%, 55%, 60%, 65%, 70%, and 75%. CRC also includes 80% and 85% Coverage Level Percentages in several counties. The Actuarial Documents identify the applicable counties where the 80% and 85% options are available.
12. CRC defines the **Base Price** and **Harvest Price** for each cotton crop using the following methodology (*The Harvest Price IS NOT the price a producer receives for his crop at the local processor*):

**Cotton - New York Cotton Exchange (NYCE) - Counties with a February 28 or March 15 Cancellation Date:**

**Base Price (NYCE)** - The January 15 to February 14 harvest year's average daily settlement price for the harvest year's NYCE December cotton futures contract rounded to the nearest whole cent. The Base Price will be released as an actuarial document addendum by February 24 of the harvest year.

**Harvest Price (NYCE)** - The November harvest year's average daily settlement price for the harvest year's NYCE December cotton futures contract rounded to the nearest whole cent. The Harvest Price cannot be less than the Base Price minus seventy cents (\$0.70), or greater than the Base Price plus seventy cents (\$0.70). The Harvest Price will be released as an actuarial document addendum by December 10 of the harvest year.

**Cotton - NYCE - Counties with a January 31 Cancellation Date:**

**Base Price (NYCE)** - The December 15 of the pre-harvest year to January 14 of the harvest year's average daily settlement price for the harvest year's NYCE October cotton futures contract rounded to the nearest whole cent. The Base Price will be released as an actuarial document addendum by January 24 of the harvest year.

**Harvest Price (NYCE)** - The September harvest year's average daily settlement price for the harvest year's NYCE October cotton futures contract rounded to the nearest whole cent. The Harvest Price cannot be less than the Base Price minus seventy cents (\$0.70), or greater than the Base Price plus seventy cents (\$0.70). The Harvest Price will be released as an actuarial document addendum by October 10 of the harvest year.

13. CRC defines the **Final Guarantee** as the number of dollars guaranteed per acre. The Final Guarantee is the greater of the Minimum or Harvest Guarantees, defined as follows:
  - (1) **Minimum Guarantee** - The Approved Yield per acre, multiplied by the Base Price, multiplied by the selected Coverage Level Percentage.

(2) **Harvest Guarantee** - The Approved Yield per acre, multiplied by the Harvest Price, multiplied by the selected Coverage Level Percentage. The Cotton CRC program limits the difference between the Harvest Price and Base Price to \$0.70/lb above and below the Base Price.

14. Production to Count equals harvested and appraised production from the insured acreage as outlined in the CRC Cotton Crop Provisions. Production to Count may include quality adjustments described in the CRC Cotton Crop Provisions and special provisions. The Production to Count will be reduced if the price quotation for cotton of like quality (price quotation "A") for the applicable growth area is less than 85 percent of price quotation "B". Price quotation "B" is defined as the price quotation for the applicable growth area for cotton of the color and leaf grade, staple length, and micronaire reading designated in the Special Provisions for this purpose. Price quotations "A" and "B" will be the price quotations contained in the Daily Spot Cotton Quotations published by the USDA Agricultural Marketing Service on the date the last bale from the unit is classed. If eligible for adjustment, the Production to Count will be determined by multiplying the number of pounds of such production by the factor derived from dividing price quotation "A" by 85 percent of price quotation "B".
15. CRC determines **Calculated Revenue** by multiplying the producer's Production to Count for the unit times the Harvest Price. Remembering that Calculated Revenue uses the CRC Harvest Price and **not** the price a producer might receive for the crop at the local processor is very important. Calculated Revenue counts against the producer's Final Guarantee in determining indemnity payments.
16. Producers may select Basic, Optional, or Enterprise Units based upon their farming operation.

A **Basic Unit** includes all insurable acreage of the insured crop in the county in which the producer has a 100% share **OR** that is owned by one entity and farmed by the producer on a share basis. For example, a producer may farm owned land in addition to rented land owned by five different landlords. Three of the renting arrangements are on a crop share basis. The other two renting arrangements are on a cash basis. Under these conditions, our example producer would have four Basic Units. One unit includes all acreage that the producer owns and rents on a cash basis. In addition, each of the three crop share renting arrangements forms a separate Basic Unit that includes the applicable acreage. Each of these Basic Units has its own Final Guarantee per acre and the producer must keep separate production records for each Basic Unit as a result.

A Basic Unit may be separated into **Optional Units** if the resulting Optional Units are found in different sections, section equivalents, or FSA farm serial numbers. Also, a Basic Unit may be separated into Optional Units by irrigated or non-irrigated practices. Any Optional Unit must have separate and verifiable production records because each Optional Unit has its own Final Guarantee per acre.

An **Enterprise Unit** consists of all insurable acreage of the insured crop in which the producer has a share in the county. The following restrictions apply to Enterprise Units:

- (1) The Enterprise Unit must contain 50 or more acres.
- (2) The acreage that comprises the Enterprise Unit must also qualify:
  - (a) For two or more Basic Units of the same insured crop that are located in two or more separate sections, section equivalents, or FSA farm serial numbers; **OR**
  - (b) For two or more Optional Units of the same insured crop established by separate sections, section equivalents, or FSA farm serial numbers.
- (3) The qualifying Basic Units or Optional Units that comprise the Enterprise Unit must each have insurable acreage of the same crop in the crop year insured.
- (4) The producer must comply with all reporting requirements and regulations for the Basic Units and/or Optional Units comprising the Enterprise Unit. More specifically, the producer may maintain and submit the same records as in the past. Those records must show that the producer qualifies for at least two Basic or Optional Units of the same insured crop as outlined above.

- (5) The producer must select the Enterprise Unit structure in writing by the sales closing date. Producers may do this in the “options” section of the CRC application in the initial crop year or on a policy change form each subsequent crop year. Once selected, the producer’s Enterprise Unit structure will remain in effect unless the insurance company is notified, in writing by the sales closing date, that the producer wishes to change unit structure.
- (6) If a producer does not qualify for an Enterprise Unit when the acreage is reported, the Basic Unit structure will be assigned.
- (7) If a producer selects and qualifies for an Enterprise Unit, then he will qualify for a premium discount based on the insured crop and number of acres in the Enterprise Unit. The Cotton CRC Enterprise Unit Discount Factors are as follows:

**These factors must be used in conjunction with a BUD (Basic Unit Discount) option factor to calculate the correct enterprise unit premium.**

| Acres     | Cotton<br>Enterprise Unit Discount Factor |
|-----------|---|
| 50 - 299  | 0.91                                      |
| 300 - 599 | 0.86                                      |
| 600+      | 0.85                                      |

- (8) If a producer selects the Enterprise Unit structure, then the Basic or Optional Units comprising the Enterprise Unit will retain separate Final Guarantees. Each acre within the Enterprise Unit will have the same Final Guarantee as it would have had under the Basic or Optional Unit structure. However, CRC pays losses at the Enterprise Unit level. For example, an Optional Unit within the Enterprise Unit may have a Calculated Revenue that is less than its Final Guarantee. CRC would pay this loss under the Optional Unit structure. However, under the Enterprise Unit structure, Calculated Revenue surpluses from the other Optional or Basic Units within the Enterprise Unit may offset this loss. The following example illustrates this fact:

#### Enterprise Unit 0100

| Line | APH     | Base Price | Harvest Price | Acres | Cov. Lev. | Final Guar. | Prod. To Count Per Acre | Calc. Rev. | Share | Share Adj. Loss (+/-) |
|------|---------|------------|---------------|-------|-----------|-------------|-------------------------|------------|-------|-----------------------|
| 1    | 1000 lb | \$0.77/lb  | \$0.75/lb     | 60    | .65       | \$30,030    | 400 lb                  | \$18,000   | 1.00  | \$12,030              |
| 2    | 950 lb  | \$0.77/lb  | \$0.75/lb     | 40    | .65       | \$19,019    | 1000 lb                 | \$30,000   | 1.00  | (\$10,981)            |
| 3    | 975 bu  | \$0.77/lb  | \$0.75/lb     | 50    | .65       | \$24,399    | 980 lb                  | \$36,750   | 0.50  | (\$6,176)             |

Enterprise Unit 0100 is composed of two Optional Units (Lines 1 and 2) and one Basic Unit (Line 3) in the above example. As shown, Line 1 (Optional Unit 0101) has a share adjusted loss that equals **\$12,030**. Also, Lines 2 and 3 (Optional Unit 0102 and Basic Unit 0200 respectively) have shares adjusted losses that equal **-\$10,981** and **-\$6,176** respectively. More precisely, Lines 2 and 3 have *negative losses* or surpluses. The two Optional Units and one Basic Unit become lines 1, 2, and 3 respectively within Enterprise Unit 0100. As stated before, those Lines retain the Final Guarantees that would have applied under the Optional or Basic Unit structure. However, CRC combines the share adjusted losses under the Enterprise Unit structure. As a result, Enterprise Unit 0100 has a net share adjusted loss that equals **-\$5,127** (the calculation is +\$12,030 + -\$10,981 + -\$6,176). A negative net share adjusted loss means that there would be no indemnity payment in this example. The producer would receive no indemnity for Line 1’s loss because of the offsetting surplus Calculated Revenues from Lines 2 and 3 applied under Enterprise Units.

17. If an indemnity payment is due under a CropRevenue Coverage policy, then we will pay it as follows:

If we do not know the Harvest Guarantee at the time a **total loss** or **prevented planting loss** is determined, then we will pay losses in two segments.

- (1) First, we pay an initial indemnity based upon the Minimum Guarantee.

- (2) Second, once we know the Harvest Guarantee, we recalculate the indemnity payment and then pay any additional indemnity due. An additional indemnity payment is due if the Harvest Guarantee is greater than the Minimum Guarantee.

If we do not know the Harvest Guarantee when a **partial loss** is determined, then we cannot pay an early indemnity because any remaining crop could produce the Final Guarantee.

We can only complete losses after the Harvest Price and Production to Count have been determined.

If we know the Harvest Guarantee at the time a loss is determined, then we will pay losses based upon the Final Guarantee. The Final Guarantee is the greater of the Minimum or Harvest Guarantees.

18. Once FCIC releases a Harvest Price, the company may set a crop yield point for each insured unit that will trigger a revenue loss payment. The company may publish the methodology that calculates the *Trigger Yield* with an explanation of the proper procedures to follow for claim payment.
19. The producer must submit a notice of loss declaring any expected revenue loss by forty-five (45) days after FCIC releases the Harvest Price. The producer must submit any resulting claim for indemnity by 60 days after FCIC releases the Harvest Price.
20. CRC's **Late Planting** provisions cover acres of the insured crop that are planted during the late planting period. The late planting period begins the day after the final planting date for the insured crop and ends 25 days after the final planting date. The Final Guarantee for each acre planted to the insured crop during the late planting period will be reduced by 1 percent per day for each day planted after the final planting date.

CRC's basic **Prevented Planting** coverage for prevented planting acreage equals 50 percent of the Final Guarantee for the acreage if it were timely planted. However, in return for an additional premium, the producer may increase his prevented planting coverage as specified in the actuarial documents.

21. Any producer eligible for MPCl coverage is eligible for CRC coverage subject to the additional items below:
  - (1) The crop must be eligible for CRC coverage.
  - (2) The insured crop must be found in states that we have included in our FCIC-approved Standard Reinsurance Agreement (SRA) for the CRC program.
22. CRC offers:
  - (1) NO hail and fire exclusion.
  - (2) NO discount for good experience. The company maintains all MPCl good experience discount records for each producer and they apply again if the producer selects MPCl in the future.
23. A producer can have other FCIC-subsidized coverage on crops not currently eligible for CRC and still carry CRC on crops that are eligible. These policies will have two prefixes (CRC & MP), but only one common number. Policies with only CRC crops will have a CRC prefix.
24. CRC bases premiums upon the Base Price and the subsequent Minimum Guarantee. These premiums can only change if the company makes APH or acreage corrections.
25. Premiums for CRC are earned and payable when coverage begins. The company bills premiums for CRC on dates contained in the Actuarial Documents.
26. A producer must submit a separate CRC application for each county or all counties may be insured on one application if so designated.
27. CRC provides coverage for the succeeding crop year unless cancelled by a time specified in the policy.