2000 Cotton - Crop*Revenue* Coverage
Common Questions and Answers

1) Q: What is Crop*Revenue* Coverage (CRC)?

A: 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 yields or a combination of the two. Since the protection of grower revenue is the primary objective of CRC, it contains provisions addressing both yield and price risks. Six key variables are Approved Yield, Coverage Level Percentage, Price Percentage, Base Price, Harvest Price, and Production to Count.

2) Q: How is Approved Yield defined?

A: CRC's **Approved Yield** is the historical average amount of production per acre in the insured unit. It uses the farmer'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.

3) Q: What is CRC's Coverage Level Percentage?

A: The farmer selects a **Coverage Level Percentage** and it defines the applicable policy's coverage and deductible.

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 crop and counties where the 80% and 85% options are available.

4) Q: What is the CRC Price Percentage?

A: The CRC program offers **100%** of the Base Price and Harvest Price as the Price Percentage.

5) Q: What are the Base and Harvest Prices used by CRC and how are they defined?

A: 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 elevator)*:

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

Base Price - 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 20 of the harvest year.

Harvest Price - 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.

<u>Cotton - New York Cotton Exchange (NYCE) - Counties with a January 15 Cancellation Date:</u>

Base Price - The December pre-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 10 of the harvest year.

Harvest Price - 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.

6) Q: What is CRC's Final Guarantee?

A: 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.

7) Q: With the key variables defined - how does CRC actually work? **(All prices used in the following examples are for illustration purposes only - they ARE NOT the actual prices that CRC might use.)*

A: The following cotton example explains CRC's basic principles.

Let us assume the Cotton Base Price is **$0.56/lb** and the selected coverage level is **65%**.

A cotton grower with an Approved Yield of **1000 lbs/acre** has a Minimum Guarantee equal to **$364/acre** (1000 lbs/acre * $0.56/lb * .65). The Final Guarantee cannot be less than $364/acre, but it can be greater if the Harvest Guarantee turns out to be greater than $364/acre.

8) Q: What happens if the Harvest Guarantee is greater than the Minimum Guarantee?

A: The **Final Guarantee** is the greater of the Minimum or Harvest Guarantees.

For example, assume it is determined that the Cotton Harvest Price is **$0.60/lb**. CRC uses the Harvest Price to calculate a Harvest Guarantee equal to **$390/acre** (1000 lbs/acre * $0.60/lb * .65). The $390/acre Harvest Guarantee is greater than the $364/acre Minimum Guarantee. As a result, CRC establishes our example's Final Guarantee at **$390/acre**.

9) **Q: What is CRC's Production to Count?**

A: **Production to Count** equals harvested and appraised production from the insured acreage as outlined in the CRC Cotton Crop Provisions. Production to Count may also 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".

10) **Q: How does CRC determine Calculated Revenue?**

A: CRC determines **Calculated Revenue** by multiplying the farmer'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 farmer might receive for his crop at the local elevator is very important. Calculated Revenue counts against the farmer's Final Guarantee in determining indemnity payments.

Let us assume the farmer in our example has Production to Count equal to 500 lbs/acre. Under these circumstances, the farmer's Calculated Revenue is **$300/acre** (500 lbs/acre * $0.60/lb).

11) **Q: How does CRC calculate an indemnity payment?**

A: If a CRC policy's Calculated Revenue is less than its Final Guarantee, then CRC pays an indemnity equal to the difference. For instance, our example's farmer receives an indemnity payment equal to **$90/acre** ($390/acre - $300/acre).

12) **Q: What unit structures are available with CRC coverage?**

A: Growers may select Basic, Optional, or Enterprise Units based upon their farming operation. Definitions for each unit type are in the CRC Basic Provisions.

13) **Q: When does Crop*Revenue* Coverage make indemnity payments?**

A: If an indemnity payment is due under a CRC policy, then CRC will pay 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 know the Harvest Guarantee at the time a loss is determined, then we will pay losses based upon the Final Guarantee.

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

Once FCIC publishes 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.

14) Q: How does Crop*Revenue* Coverage pay Late Planting, Prevented Planting, and Replanting losses?

A: 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 farmer may increase his prevented planting coverage as specified in the actuarial documents.

Replanting payment coverage is not applicable to cotton.

15) Q: How is the CRC premium calculated and when is the premium due?

A: **CRC uses the CRC Premium Calculation Worksheet** to estimate the producer-paid premium for insurable crop acreage including written agreements that specify a base rate for the coverage level and a reduced high risk factor, if applicable.

Use the following procedures to estimate the producer-paid premium for insurable crop acreage when a written agreement specifies a high risk rate as a 75% coverage level combined rate that includes both the base rate and high risk factor.

1. The written agreement rate is divided by the 75% Base Premium Rate for the applicable R-Span. The result is the High Risk Map Area Adjustment Factor (item J on the CRC Premium Calculation Worksheet.)

2. Enter the Base Premium Rate for the appropriate R-Span and coverage level in item C on the CRC Premium Calculation Worksheet.

3. Calculate the CRC estimated premium using the CRC Premium Calculation Worksheet.

CRC bases premiums upon the Base Price and subsequent Minimum Guarantee. These premiums can only change if the company makes APH or acreage corrections.

Premiums for CRC are earned and payable when coverage begins. The company bills premiums for CRC on dates contained in the Actuarial Documents.

16) Q: Does the grower need to submit a separate CRC application for each county?

A: A grower must submit a separate CRC application for each county or all counties may be insured on one application if so designated.

17) Q: Is CRC a continuous policy?

A: CRC is continuous and provides coverage for each succeeding crop year, unless canceled by a time specified in the CRC policy.

18) Q: Does CRC use written agreements?

A: Written agreements may apply to CRC for **rating purposes**.

The insured must request a written agreement to insure acreage in counties without CRC premium rates or to receive a premium rate reduction on land classified as high risk. Acreage in counties without CRC premium rates may be insured using written agreements only if the county without the CRC premium rate adjoins a county with a CRC premium rate 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 rate is available, the insured can obtain insurance with that CRC premium 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.

19) Q: Does CRC use written unit agreements?

A: 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).