



**United States Department of Agriculture**

Farm and Foreign Agricultural Services  
Risk Management Agency

**INFORMATIONAL MEMORANDUM**

**TO:** All Reinsured Companies  
All Risk Management Agency Field Offices  
All Other Interested Parties

**FROM:** Kenneth D. Ackerman /s/ Ken Ackerman 3-14-00  
Administrator

**SUBJECT:** Use of Peanut Policy Provisions and Farm Service Agency (FSA) Reconstitution Procedures to Disproportionately Increase Peanut Guarantees

**ISSUE:**

Some peanut producers may be using Risk Management Agency (RMA) “county” definition, optional unit provisions, and FSA Farm Serial Number (FSN) reconstitution procedures to benefit from a higher peanut guarantee than would otherwise be available in the county in which they historically farm.

**BACKGROUND:**

Due to the restrictions on obtaining individual yield data on peanuts, RMA relies on the yields provided by FSA. Since producers report to FSA on a FSN basis, section 2(a) of the Peanut Crop Insurance Provisions, (7 C.F.R. § 457.134) states that optional units on are on FSN basis. Further, FSA allows the producer’s FSN to cross county boundaries. Therefore, in section 1 of the Peanut Crop Insurance Provisions, RMA defines “county” to include land identified by the FSN even if the land is physically located in another county. FSA also allows the reconstitution of FSNs, which has the effect of changing the unit structure under the peanut policy.

RMA has been advised that some producers from adjoining counties are leasing land in Collingsworth and Wheeler Counties, Texas, and subsequently using FSA FSN reconstitution procedures to administratively transfer peanut farms from their adjoining county to those counties. Once the transfer is complete, they obtain a higher guarantee based on the Collingsworth or Wheeler County, Texas program.



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When RMA permitted optional units by FSN, it expressly included section 2(b) of the Peanut Crop Insurance Provisions to preclude program abuse. Section 2(b) states “We may reject or modify any FSA reconstitution for the purpose of the unit definition, if we determine the reconstitution was done in whole or in part to defeat the purpose of the Federal crop insurance program or to gain a disproportionate advantage under this policy.”

Producers that are reconstituting their farms so that they will receive a yield that is higher than the yield where the land is actually located defeats the purpose of the program, which is to insure the actual production capacity of the acreage on which the crop is produced. These producers would certainly gain a disproportionate advantage over producers whose FSNs do not cross county borders and receive the yield for the county in which the land is located.

### **ACTION:**

To prevent fraud, waste and abuse of the program section 2(b) of the Peanut Crop Insurance Provisions must be strictly enforced. Any producer who has acreage that has been reconstituted and results in the producer receiving a yield that is higher than what it would have received had the reconstitution not taken place will satisfy the requirements of section 2(b) unless other valid reasons for the reconstitution exist. In such cases, reinsured companies should reject the reconstitution or modify the reconstitution such that the unit will still be the reconstituted FSN but the guarantee and premium for the unit will be determined separately for each county, using the yields and premium rates applicable to the county, and then added together to determine the guarantee and premium for the unit. For processing purposes, enter the rate state and rate county for each county contained in the unit and submit in the Type 11 record. Identify each record with a “Q” in the written agreement field.

For the 2000 crop year only, the RMA Oklahoma City Regional Office will provide a list of producers that have reconstituted acreage in counties adjoining Collingsworth and Wheeler Counties, Texas, to reinsured companies requesting help in identifying producers who may be affected by section 2(b) of the Peanut Crop Provisions.

Companies may request information on reconstitutions in counties adjoining Collingsworth and Wheeler Counties, Texas by writing to:

Ronald Berryhill, Director  
RMA Oklahoma City Regional Office  
205 NW 63<sup>rd</sup> Street, Suite 170  
Oklahoma City, Oklahoma 73116-8254

### **DISPOSAL:**

This memorandum is for the purpose of transmitting/updating information and the disposal date is December 31, 2000.