

1999 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 Rate, CRC High Price Factor, CRC Low Price Factor, MPCl Base Rate, CRC Base Price, MPCl Market Price, and any other applicable factors found in the CRC and/or MPCl Actuarial Documents. It also includes the Application, Approved Yield, and an Acreage Report submitted by the insured to the insurance company. We will charge administrative fees on a crop and county basis. If a client insures the crop at the 50%, 55%, or 60% coverage level, then a fifty (\$50.00) dollar administrative fee will apply, not to exceed \$200 per county or \$600 for all counties. If a client insures the crop at a 65% or higher coverage level, then a twenty (\$20.00) dollar administrative fee will apply for each crop. The company will invoice the insured for the total actual premium and administrative fee(s). This amount will be due and payable on a date specified in the Special Provisions of the Actuarial Document for the current crop year.

2. CRC uses the following worksheets to calculate its Producer-Paid Premium:

CRC High Risk Classification Premium Calculation Worksheet - CRC uses this worksheet to calculate the producer-paid premium for CRC crop insurable acreage with a high risk classification or written agreement rate that references the Supplemental Rate Differential (as displayed on the FCI-35 Coverage and Rate Table) to determine the MPCl Base Rate.

CRC FCI-35 R-Span Base Rate Premium Calculation Worksheet - CRC uses this worksheet to calculate the producer-paid premium for all other CRC crop insurable acreage.

3. The insured should submit a CRC application to the company no later than the applicable sales closing date. We must receive all timely dated applications within twenty (20) days of the sales closing date. We 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. Growers 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 found in the CRC Basic Provisions. The insured does have the option of excluding any high risk ground from CRC coverage and insuring it with an MPCl CAT policy. The insured must complete a High Risk Exclusion form and CAT application for the high risk ground by the sales closing date. Growers must submit these documents to the company within twenty (20) days of sales closing. This option is **not available** for unclassified or uninsurable land.

6. Written agreements may apply to CRC for **rating purposes only**. CRC may use a written agreement authorized by FCIC that allows standard R-span rates for a specific crop grown on a specific high risk classification. Additionally, CRC may use a written agreement authorized by FCIC that includes a reduced rate for the crop acreage on a specific high risk classification. Accordingly, CRC may use a written agreement authorized by FCIC that includes a specific MPCl base rate for the applicable crop on uninsurable or unclassified acreage.

When the written agreement specifies a high risk classification rate or MPCl base rate using a rate differential, we use the High Risk Classification Formula Worksheet to calculate the producer-paid premium. If the written agreement specifies a standard R-span rate or reduced rate map area adjustment factor, we use the FCI-35 R-span Base Rate Formula Worksheet to calculate the producer-paid premium. The applicable crop specified in the written agreement must be eligible for CRC coverage.

7. The grower 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.
8. 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 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.
9. 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.
10. The available CRC **Coverage Level Percentages** are 50%, 55%, 60%, 65%, 70%, and 75%.
11. The farmer selects a **Price Percentage** that we multiply times the defining averages for the applicable Base and Harvest Prices to calculate the policy's final Base Price and Harvest Price. Under the Cotton CRC program, farmers may select **100%** or **95%** as the Price Percentage for their policy.

By the sales closing date, the farmer must select the policy's Price Percentage on the CRC application or on a policy change form if CRC coverage is already in place. If the farmer has never selected a Price Percentage, then his policy's Price Percentage defaults to 95%.

If the farmer selects a Price Percentage during a previous crop year and does not change it for a succeeding crop year, then the Price Percentage remains unchanged. The farmer must request any Price Percentage changes on a policy change form by the applicable crop year's sales closing date.

The same selected or assigned Price Percentage applies to the policy's Base Price and Harvest Price.

FCIC will release the available Price Percentages and subsequent Base Prices as an Actuarial Documents Addendum before the applicable sales closing date. FCIC will also release the available Price Percentages and subsequent Harvest Prices as an Actuarial Documents Addendum after we calculate the applicable Harvest Price defining averages.

A CRC policy with the 100% Price Percentage selection uses the same rates, price factors, and premium calculation procedure as an identical policy with the 95% Price Percentage selection. However, premiums are greater for a 100% Price Percentage selection because of the higher prices.

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 average daily settlement price for the harvest year's NYCE December cotton futures contract (rounded to the nearest whole cent) multiplied times the selected Price Percentage and rounded to the nearest whole cent. The available Price Percentages and subsequent Base Price will be released as an Actuarial Document Addendum (Special Provisions) by February 20 of the harvest year.

Harvest Price (NYCE) - The November harvest year average daily settlement price for the harvest year's NYCE December cotton futures contract (rounded to the nearest whole cent) multiplied times the selected Price Percentage and 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 Price Percentage used to calculate the Harvest Price is equal to the selected Price Percentage used to calculate the Base Price. The Harvest Price will be released as an Actuarial Document Addendum (Special Provisions) by December 10 of the harvest year.

Cotton - NYCE - Counties with a January 15 Cancellation Date:

Base Price (NYCE) - The December pre-harvest year average daily settlement price for the harvest year's NYCE October cotton futures contract (rounded to the nearest whole cent) multiplied times the selected Price Percentage and rounded to the nearest whole cent. The available Price Percentages and subsequent Base Price will be released as a Actuarial Document Addendum (Special Provisions) by January 10 of the harvest year.

Harvest Price (NYCE) - The September harvest year average daily settlement price for the harvest year's NYCE October cotton futures contract (rounded to the nearest whole cent) multiplied times the selected Price Percentage and 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 Price Percentage used to calculate the Harvest Price is equal to the selected Price Percentage used to calculate the Base Price. The Harvest Price will be released as an Actuarial Document Addendum (Special Provisions) 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 also includes quality adjustments described in the CRC Cotton Crop 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 75 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 75 percent of price quotation "B".

- 15.** 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 the crop at the local processor is very important. Calculated Revenue counts against the farmer's Final Guarantee in determining indemnity payments.

- 16.** Growers 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 grower has a 100% share **OR** that is owned by one entity and farmed by the grower on a share basis. For example, a grower 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 grower would have four Basic Units. One unit includes all acreage that the grower 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 grower 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 grower 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 grower must comply with all reporting requirements and regulations for the Basic Units and/or Optional Units comprising the Enterprise Unit. More specifically, the grower may maintain and submit the same records as in the past. Those records

must show that the grower qualifies for at least two Basic or Optional Units of the same insured crop as outlined above.

5. The grower must select the Enterprise Unit structure in writing by the sales closing date. Growers may do this in the "options" section of the CRC application or on a policy change form.
6. If a grower does not qualify for an Enterprise Unit when he reports the acreage, then we will assign him the Basic Unit structure.
7. If a grower 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 Enterprise Unit Discount Factor
50 - 299	0.91
300 - 599	0.86
600+	0.85

8. If a grower 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** (+\$12,030 + -\$10,981 + -\$6,176). A negative net share adjusted loss means that there would be no indemnity payment in this example. The farmer 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 policy's 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 grower must submit a notice of loss declaring any expected revenue loss by forty-five (45) days after FCIC releases the Harvest Price. The grower 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 farmer may increase his prevented planting coverage as specified in the actuarial documents.

- 21.** Any grower 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 farmer and they apply again if the farmer selects MPCl in the future.
- 23.** A grower 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 subsequent Minimum Guarantee. These premiums can only change if the company makes APH or acreage corrections.
- 25.** Premiums for CRC are due when coverage begins. The company bills premiums for CRC on dates contained in the Actuarial Documents.
- 26.** A grower must submit a separate CRC application for each county.