United States Department of Agriculture

Risk Management Agency

1400 Independence Avenue, SW
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Washington, DC 20250-0801

March 3, 2006

INFORMATIONAL MEMORANDUM

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

FROM: Craig A. Witt, Director
Reinsurance Services Division

SUBJECT: User Fee Notification to Approved Insurance Providers

On February 15, 2006, Iowa Agricultural Insurance Innovations, L.L.C. (IAII), the developers of Livestock Gross Margin, and Applied Analytics Group, Inc. (AAG), the developers of Livestock Risk Protection (LRP) advised the Federal Crop Insurance Corporation (FCIC) Board of Directors (Board) of their intent to maintain LGM and LRP and charge a user fee to approved insurance providers (AIP) selling LGM and LRP. Section 522(b)(4)(C) of the Federal Crop Insurance Act (Act) allows submitters to transfer approved 508(h) products to FCIC for maintenance or to maintain the policy and charge a user fee to AIP's that elect to sell the policy.

Section 522(b)(4)(D)(ii) of the Act and 7 C.F.R. 400.712(j)(4) state that the Board will approve the amount of user fee that is payable to the applicant by approved insurance providers unless the Board determines that the user fee charged: (1) is unreasonable in relation to the maintenance costs associated with the policy or plan of insurance; or (2) unnecessarily inhibits the use of the policy or plan of insurance by other approved insurance providers. Section 400.712(j)(5) states that reasonableness of the user fees will be determined by the Board based on a comparison with the amount of reimbursement for maintenance previously received, the number of policies, the number of approved insurance providers, and the expected total amount of user fees to be received in any reinsurance year.

AAG requested approval for a user fee for the 2007 reinsurance year in the amount of $65 per policy for LRP and IAII requested approval in the amount of $200 per policy for LGM. Based on expected sales, these user fees will generate an income that is an approximation of the amount, or a lesser amount, of maintenance the Board has been annually approving for these policies. Therefore, the Board has determined that the amount generated by the user fees is not unreasonable in relation to the maintenance costs associated with the policy. Further, the Board determined that such amount is necessary to cover the cost of maintaining these policies. Therefore, charging these amounts will not unnecessarily inhibit the use of the policy. However, the Board has reserved the right to revisit these user fees in future years to ensure that these standards continue to be met. The user fee is owed by the AIP's and cannot be passed on to producers as an increase in premium or an administrative charge.

Section 400.712(j)(1)(i) states, "…It is the sole responsibility of the applicant to collect such fees from the approved insurance providers and any indebtedness for such fees must be resolved by the applicant and approved insurance provider. Applicants may request that FCIC provide the number of policies sold by each approved insurance provider."

In accordance with section 400.712(j)(1)(i), the Risk Management Agency (RMA) will provide, upon IAII and AAG's request, a count of policies earning premium for the 2007 reinsurance year, by AIP. RMA anticipates that requests will generally occur within 30 days after the end of the reinsurance year. IAII and AAG are responsible for contacting those AIPs who sold LGM or LRP policies, as applicable, to arrange for payment of the user fees. Failure to timely pay the user fees will result in the suspension or termination of the AIP's ability to write any new LGM or LRP policies and existing policies must be cancelled by the applicable cancellation date.

If you have any questions regarding the user fees, please contact your Reinsurance Services Account Representative.