



United States
Department of
Agriculture

Farm and Foreign
Agricultural
Services

Risk
Management
Agency

Washington, D.C.
20250

INFORMATIONAL MEMORANDUM: IS-12-005

TO: All Approved Insurance Providers
All Risk Management Agency Field Offices
All Other Interested Parties

FROM: Michael A. Alston /s/ Robert Ibarra, for 10/22/2012
Deputy Administrator for Insurance Services

SUBJECT: Claims Alert—Determining Peanut Damage for Quality Adjustment

BACKGROUND:

A large number of acres were planted to peanuts for the 2012 crop year and generally favorable growing conditions resulted in above average production. In some regions, approximately 50 percent of the 2012 peanut acreage is under contract. Due to the increase in planted acreage and above average potential production for the 2012 crop, the best price producers could receive for peanuts not under contract may be the Farm Service Agency (FSA) loan rate, which is less than the current Risk Management Agency (RMA) Peanut Price Election of \$.2880/pound for non-contracted peanuts. For mature peanuts to qualify for quality adjustment, the production must be damaged by an insurable cause of loss during the insurance period. Production to count will be reduced if the price received for damaged peanuts is less than 85 percent of the policyholder's price election.

Questions have been raised as to whether policyholders will be eligible for quality adjustment on their peanuts for the 2012 crop year due to an expected low price.

ACTION:

Damage is defined in Section 1 of the Common Crop Insurance Policy, Basic Provisions as follows: "Damage - Injury, deterioration, or loss of production of the insured crop due to insured or uninsured causes." The Peanut Crop Provisions outline insurable causes of loss under Section 11.



The Risk Management Agency Administers
And Oversees All Programs Authorized Under
The Federal Crop Insurance Corporation

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The current Peanut Crop Provisions provide yield protection, not revenue protection. Section 14 (e) of the Peanut Crop Provisions states: “Mature peanuts may be adjusted for quality when production has been damaged by an insurable cause of loss.” Peanuts are eligible for quality adjustment **ONLY** if there is an insurable cause of loss that results in actual damage to the peanuts and a lower price directly resulting from that damage. The policyholder must prove that an insurable cause of loss occurred, the damage to the peanuts resulted from such cause of loss, and the price received is due to poor peanut quality and not current market conditions.

The Peanut Crop Provisions Section 14 (e) (2) provides for consideration of quality adjustment if the policyholder submits a satisfactory marketing record. Section 9 C, Item 40 a. of the Peanut Loss Adjustment Standards Handbook provides that the claim file must include the FSA-1007 form or other form that documents quality of the peanuts. The Approved Insurance Provider should use all pertinent information including the FSA-1007 form and on-the-farm inspections to help determine and verify whether the reduced price is due to damage from an insurable cause of loss. Procedures for on-the-farm inspections are outlined in Part 3 of the Loss Adjustment Manual.

Companies and their affiliates should remind policyholders that quality adjusted production will impact actual production history yields for subsequent crops years as outlined in Section 13 of the Crop Insurance Handbook.

DISPOSAL DATE:

December 31, 2012.

