United States
Department of
Agriculture

Farm and Foreign
Agricultural
Services

Risk
Management
Agency

1400 Independence
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BULLETIN NO.: MGR-12-020

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

FROM: William J. Murphy */s/ Michael F. Hand, for*
Administrator

SUBJECT: Additional Guidance in Determining Peanut Damage for Quality Adjustment

BACKGROUND:

The Risk Management Agency (RMA) issued Informational Memorandum IS-12-005: Claims Alert - Determining Peanut Damage for Quality Adjustment on October 22, 2012. Additional questions have been raised regarding production being placed in the Farm Service Agency (FSA) loan pool, which has a base loan rate of $.1773 for undamaged peanuts and whether peanuts that receive less than this rate would be eligible for quality adjustment. Approved Insurance Providers (AIPs) expressed concern about their ability to determine which part of the price received was due to poor quality and which part was a result of market conditions. AIPs requested RMA provide additional guidance to assist with this determination.

Section 14(e) of the Peanut Crop Provisions states mature peanuts may be adjusted for quality when production has been damaged by an insured cause of loss.

> (3) Such production to count will be reduced if the price per pound received for damaged peanuts is less than 85 percent of the price election by:
>> (i) Dividing the price per pound for the damaged peanuts, as determined by us in accordance with section 14(e)(1), received for the insured type of peanuts by the applicable price election; and
>> (ii) Multiplying this result by the number of pounds of such production.

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 insurable damage. Policyholders must prove that an insurable cause of loss occurred, the peanuts were damaged, and the damage to the peanuts resulted from such cause of loss, and the price received is due to poor peanut quality and not due to a reduction in price resulting from a glut of peanuts in the market. All pertinent information including the FSA-1007 form, other sales documents, and on-the-farm inspections may be used to determine and verify whether the reduced price is due to damage from an insurable cause of loss.

ACTION:

In accordance with section 14 (e)(3)(i) of the Peanut Crop Provisions the price per pound for the damaged peanuts, as determined by us in accordance with section 14(e)(1) must be established for use in the loss calculation for quality adjustment.

The $.1773/lb. paid by FSA under the peanut loan program is the maximum that FSA can pay for peanuts. Since this is the price received for undamaged peanuts, damaged peanuts would receive less than the maximum price. Therefore, peanuts receiving the $.1773/lb. base loan rate should be considered as undamaged and the lower price received is a result of the glut in the market forcing the producer to put the peanuts under loan, not an insurable cause of loss. Therefore, such peanuts are not eligible for quality adjustment.

Peanuts under loan that are valued at less than the base loan rate (i.e. $.1773/lb.) may be considered damaged and, therefore, eligible for quality adjustment provided the policyholder proves and the loss adjuster verifies the damage is due to an insured cause of loss. To account for the significant market decline, resulting from the generally favorable growing conditions and above average production, quality adjustment for any peanuts that are actually damaged will be calculated based on the percentage difference between the damaged peanut value and the loan price.

The following example is provided to assist AIPs in determining the price per pound for damaged peanuts for quality adjustment.

Example: Peanuts under loan and not under contract

Base loan rate: $.1773 (Obtained from the FSA-1007) or other sales document
Price received for damaged peanuts: $.1400
RMA price election 100%: $.2880
QA threshold: $.2448 ($.2880 x .85)
Production to count: 500 lbs.
AIP determined price per pound: $.2274 [$.2880 x ($.1400 ÷ $.1773)]
QA factor: .7896 ($.2274 ÷ $.2880)
Reduced production to count due to quality: 500 lbs. x .7896 = 394.8 lbs.

Note: But for an oversupply of good quality peanuts resulting in a significant price decline, normal market conditions would likely be closer to the RMA price election of $.2880 and consequently the peanuts would not have been placed under FSA loan. It would be reasonable to assume that based on the same percentage reduction for damaged peanuts, as shown in the example above, the price received for such damaged peanuts in a "normal" year would have been $.2274 as determined above.

DISPOSAL DATE:

Until incorporated into procedure.