United States Department of Agriculture

Risk Management Agency

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May 27, 2010

INFORMATIONAL MEMORANDUM: PM-10-005.1

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

FROM: Tim B. Witt */s/ Tim B. Witt*
Deputy Administrator

SUBJECT: Coverage for Specialty Types of Barley and Soybeans Beginning with the 2010 Crop Year

BACKGROUND:

On February 1, 2010, the Risk Management Agency (RMA) issued PM-10-005 regarding insurance coverage for specialty types of barley and soybeans based on contract prices effective for the 2010 crop year. Some questions have arisen pertaining to type identification, prevented planting, replanting, and quality adjustment. RMA is providing the following guidance when insuring specialty types.

ACTION:

1. **Identifying Specialty Types:** There are six possible types specified in the Special Provisions of Insurance (SPOI): All Others (AO), and the five specialty types shown below with the requirements for each:
   a. Large seeded food grade – Soybeans commonly used for tofu, soymilk, and miso having a minimum seed size of 20g/100 seeds.
   b. Small seeded food grade – Soybeans commonly used for sprouts having a minimum seed size of 10g/100 seeds, or for natto soybeans having a minimum seed size of 8g/100 seeds.
   c. Low linolenic acid – Soybeans commonly used to produce soybean oil with a linolenic acid level of three percent or less.
   d. Low saturated fat - Soybeans containing 50 percent less saturated fat than conventional soybeans and are used to produce soybean oil with eight percent or less total saturated fats.
   e. High protein - Soybeans containing protein levels 43 percent or greater.

      i. To be insurable as one of the specialty types, soybeans must meet the requirements stated above. For example, to be considered large seeded food grade (LSFG), the variety must commonly be used to produce tofu, soymilk or miso and must commonly produce a minimum seed size of 20 grams per 100 seeds (seed companies have bred varieties and tested them through field trials to demonstrate the seed commonly produces 20 grams per 100 seeds). Harvested production may not always meet the specified size requirements due to adverse weather conditions; however, the crop will still be insured as LSFG soybeans.

ii. Specialty types insured at a contract price must be grown under a contract that is provided no later than the acreage reporting date. If the contract does not clearly specify the type, or the characteristics are not commonly known for the particular type, it may be necessary for the policyholder to obtain more information from the seed supplier or seed company to help prove if it is one of the insurable specialty types.

iii. Soybeans not commonly used for the purposes stated in the SPOI or that do not typically reach the seed size specified in the SPOI, are considered to be AO type.

2. **Prevented Planting:** Prevented planting payments can be made based on the contract price, when the policyholder provides a contract by the acreage reporting date. If the contract is cancelled or reduced solely because acreage is prevented from being planted, the original contract amount is used to determine if the 110 percent requirement (total number of insured specialty type acres does not exceed 110 percent of the acreage under contract) has been met. Eligible acres for prevented planting payments are determined in the same manner as for other crops with specific types. Since specialty barley and soybeans are not required to be under contract to be insured (a contract is required only if the policyholder wants to insure based on their contact price), eligible acres are determined in accordance with section 17(e)(1)(i) of the Basic Provisions.

   a. If a policyholder does not have enough eligible acres for prevented planting purposes for a crop and there are other eligible acres for another crop, the acres are determined on a policy basis. This is consistent with the way eligible acres are determined when high risk land is excluded and insured under an APH CAT policy.

   b. Below are several examples of determining prevented planting for specialty types.

Example 1: A policyholder with no previous history of growing specialty type soybeans plans to plant and insure LSFG type soybeans under the APH plan using a contract price, but is prevented from planting this type. The policyholder has a history of growing AO type soybeans.

Since the insured has not produced LSFG in the past, the insured will not have any eligible prevented planting acres for that type. The prevented planting acres may be paid based on the AO type if there are any remaining eligible prevented planting acres, or on another crop with remaining eligible prevented planting acres.

Example 2: A policyholder has a contract for 1,000 acres of a specialty type. The highest number of soybean eligible acres in the last 4 years was 300 acres (AO). The policyholder's total soybean eligibility for prevented planting acres is 300 acres, determined in accordance with the Basic Provisions section 17 (e)(1)(i)(A). There are no eligible prevented planting acres for the specialty type; therefore, any prevented planting eligibility for soybeans can only be based on the AO type.

Example 3: In 2009, the policyholder planted 900 acres of a specialty type and was paid 200 acres of prevented planting. The acreage report for 2009 shows prevented planting acres type 997 and the Actual Production History (APH) database shows 900 acres of the specialty type. Eligibility by type is determined as provided in Section 17(f)(11) and 17(e)(1)(i)(A) of the Basic Provisions. In this case, the policyholder planted 900 specialty type acres in the previous year and is therefore eligible for 900 prevented planting acres of the specialty type for the 2010 crop year. If the policyholder can prove the 200 prevented planting acres were intended to be a specialty type (e.g., can provide a contract, seed records, etc.), they can be added to the 900 eligible acres for the specialty type for a total of 1,100 eligible acres. If the policyholder cannot provide evidence the type prevented from being planted was a specialty type, those acres will be the AO type (900 eligible acres of the specialty type and 200 eligible acres of the AO type).

Example 4: A policyholder has a Revenue Assurance (RA) policy for the AO type and an APH policy for a specialty type in 2010. The RA policy has a unit with 100 acres planted to AO type. The APH policy has a unit with 50 acres planted to a specialty type. Both types are planted in the same field and there are 15 acres in the field that are prevented from being planted. To determine whether the prevented planting acres meet the 20/20 rule, it must first be determined if the 15 acres that were prevented from being planted are the specialty type or the AO type. If the 15 acres are prevented from being planted to the specialty type, the acreage may qualify for a prevented planting payment because more than 13 acres were prevented from being planted (20 percent of the 65 acres in the unit = 13). If the 15 acres that are prevented from being planted are the AO type, the acreage would not qualify for a prevented planting payment because the 20/20 rule for the 115 acre unit of the AO type requires at least 20 acres to be prevented from being planted.

3. **Replanting Payment:** Replanting payments will be based on the crop type that is replanted and insured. A policyholder with a specialty type must replant the specialty type originally planted if it is practical to replant. If it is not practical to replant to the same specialty type, the policyholder has several choices.

   a. First, the policyholder can receive an indemnity on the specialty type, choose to plant to another specialty type or plant to the AO type, in which case the 1st crop/2nd crop rules would apply.

b. Second, a producer could choose to replant to another specialty type or to AO type, provided it is practical to replant to such type.

c. A policyholder who has insured a specialty type under an APH policy and has insured AO types under a revenue coverage policy, and the policyholder replants to AO, the specialty type APH policy acreage report will be revised to remove the acres replanted to AO. The revenue policy acreage report will be revised to reflect the total number of AO acreage replanted and will be used to process any replanting payment under the revenue policy based on the replanted AO type. If removing the replanted specialty type acreage from the APH policy results in a zero acreage report, the policyholder will not be charged an administrative fee for the APH policy.

   Example: Policyholder plants 100 acres of AO type soybeans and initially plants 50 acres of LSFG soybeans. The LSFG incurs a covered cause of loss and the 50 acres are replanted to the AO type for a total of 150 acres of AO type. The replanting payment will be based on 50 acres of the AO type, provided it is practical to replant the AO type. If the 100 acres of AO was insured under a revenue policy and the 50 acres of LSFG was excluded and insured under an APH policy, then the LSFG acreage replanted to AO will be added to the revenue policy acreage report. The APH policy acreage report will be revised to show zero acres of LSFG.

4. **Quality Adjustment:** Specialty type barley and soybeans will be quality adjusted in the same manner as AO type barley and soybeans. The discount factor (DF) charts in the SPOI, or if applicable, the reduction in value (RIV) and local market price for AO barley and soybeans will be used for quality adjustment purposes, without regard to any contract price for the specialty type barley and soybeans. The RIV for specialty types will be based on the reduction in value applied by buyers of AO type soybeans or barley with similar quality deficiencies.

   Example: A policyholder has a contract for 100 acres of specialty type soybeans. The contract price for the specialty type is $12.00 per bushel. All contracted production is delivered to the processor. Due to insurable causes, the production has a test weight of 40 lbs. per bushel. As a result, the processor discounts the specialty type and the policyholder receives $4.00 a bushel for all of the production.

   On the day the soybeans were sold the local market price for U.S. No. 1 soybeans is $7.00 per bushel. The RIV for AO type soybeans with the same 40 lb. test weight is $4.00. Regardless of the amount of discount applied by the processor, the specialty type quality adjustment will be based on the AO type RIV and the local market value at the time of sale. In accordance with the SPOI, the Quality Adjustment Factor will be determined as follows:

   a. $4.00 RIV / $7.00 LMP = .571 DF
   b. 1.000- .571 = .429 QA

DISPOSAL DATE: December 31, 2010