United States Department of Agriculture

Farm and Foreign Agricultural Services

Risk Management Agency

1400 Independence Avenue, SW
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DATE: March 1, 2012

TO: Board of Directors
Federal Crop Insurance Corporation

FROM: William J. Murphy /s/
Manager

SUBJECT: Manager's Report
Exhibit 4068

This memorandum serves as the Manager's Report to the Federal Crop Insurance Corporation (FCIC) Board of Directors (Board) for the March 1, 2012 meeting.

Product Management Update

Actual Production History (APH) Proposed Enhancements: On December 13, 2011, the Risk Management Agency (RMA) issued Manager's Bulletin MGR-11-017 requesting comments from stakeholders in the Federal crop insurance program regarding potential enhancements to regulations and procedures related to the calculation of the APH and changes to production reporting. These enhancements would result in the creation of permanent yield databases, use yield information from the land as well as individual producer yields, utilize personal T-Yields in place of those currently used, change the timing of production reporting, and utilize the reporting ability of new technology such as precision farming information. The purpose of these suggested enhancements are to provide efficiencies and cost savings to the crop insurance program as well as to reduce complexity, improve program integrity, and incorporate technological innovation. RMA requested comments by February 9, regarding the proposed procedures. Eleven parties commented and RMA is currently consolidating and categorizing the comments for further evaluation and consideration.

Pasture, Rangeland and Forage Pilot (PRF): Two Risk Management Specialists from Product Administration and Standards Division traveled to New Mexico the week of February 13, to meet with a group of ranchers and representatives of New Mexico State University (NMSU) to discuss the Vegetation Index Pasture, Rangeland and Forage program. The Specialist and RMA's contractors provided information on the results of the program, along with information from the Natural Resources Conservation Service (NRCS). The most significant outcome from the meeting was identification of the need for greater education and awareness and RMA will continue to work with NMSU and others to provide this support.

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

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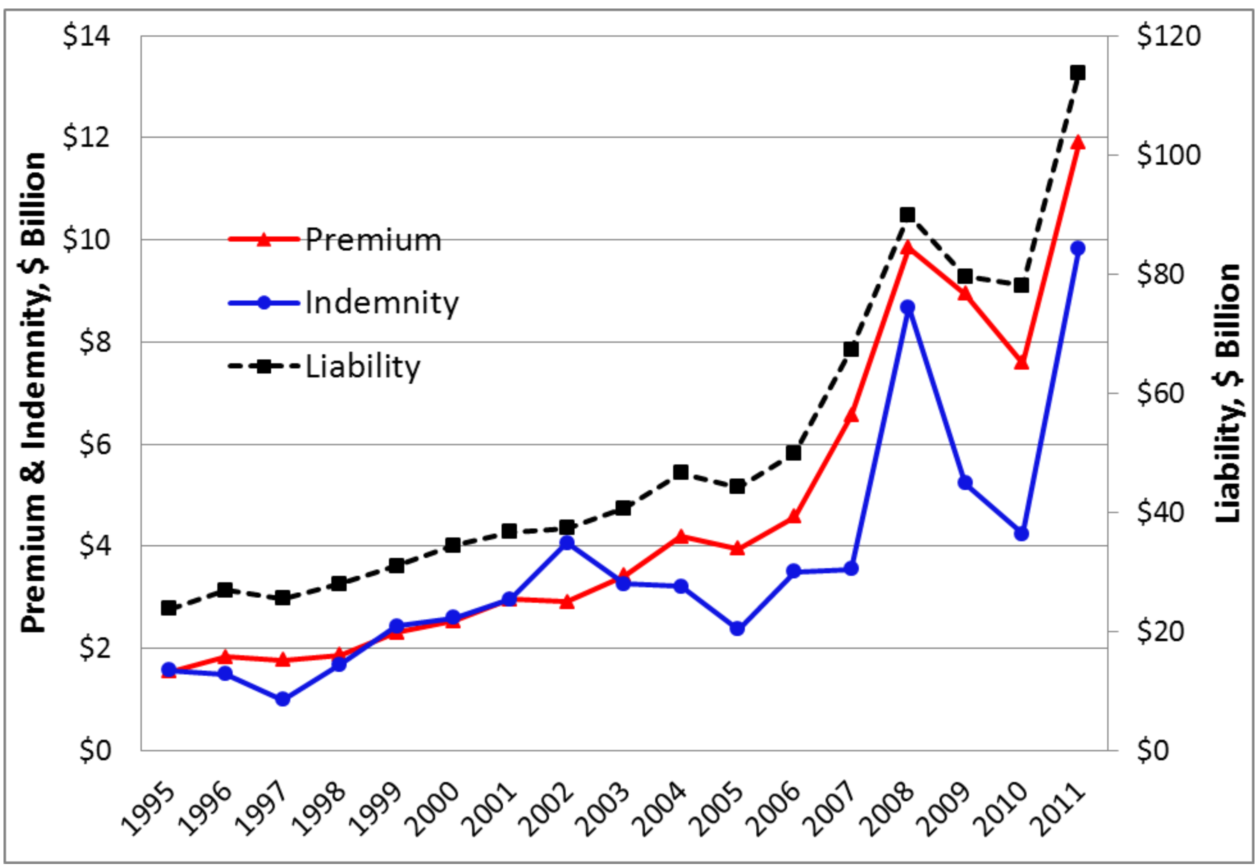
Livestock Underwriting Capacity: The Act allows $20 million per year for all livestock expenses which includes premium subsidy and administrative and operating subsidy. Livestock Gross Margin for Dairy (LGM-Dairy) used $13.1 million in underwriting capacity in the October and November sales periods. To facilitate sales of the seven other livestock products, sales of LGM-Dairy have ceased for the 2012 fiscal year. There is approximately $5.3 million in underwriting capacity remaining for the 2012 fiscal year. RMA is monitoring underwriting capacity and will make adjustments between the livestock products as necessary.

Acreage Crop Streamlining Initiative (ACRSI): The ACRSI sub teams continue to make progress towards providing streamlined and self-service solutions to producers for reporting program data. Agencies participating in the ACRSI include RMA, the Farm Service Agency (FSA), NRCS, and the National Agriculture Statistics Service (NASS). Work is currently progressing to: (1) Consolidate all location identifiers to ANSI standards for 2013; (2) Standardize producer business types; (3) Adopt the Combined Land Unit (CLU) as the standard for land identification nationwide; (4) Consolidate production data elements across USDA; (5) Consolidate a commodity list USDA wide; (6) Create a Governance Charter to provide guidance to maintain the new common data standards; and, (7) Create web tools and a pilot test to allow producers the option to directly report their acreage and crop data on-line.

2011 Program Indemnities: Indemnities in 2011, currently at just over $9.8 billion, are the highest in the history of the Federal crop insurance program. Compared to the next highest year, 2008 with nearly $8.7 billion in indemnities, 2011 indemnities were slightly over 13 percent higher. However, liability for 2011 was also a record amount at a little over $113.7 billion. The following table shows liability, premium and indemnity since 1995.



Actual Production History Olive (APH-Olive): The APH-Olive program, submitted to FCIC by the Olive Growers Council of CA, was one of the first five Concept Proposals submitted in April 2009. It was followed by a full 508(h) product submission and was approved by the Board for implementation on September 22, 2011. The APH-Olive program was released on November 30, 2011 and will be available to olive growers in 12 California counties beginning with the 2012 crop year. The APH-Olive Program is a 2-year production-based policy with specific features addressing the issue of alternate bearing production.

Popcorn Revenue Coverage (PCR): The PCR program, submitted to FCIC by Watts and Associates and The Popcorn Institute, was also one of the first five Concept Proposals submitted to FCIC and was received in April 2009. It was followed by a full 508(h) product submission and was approved by the Board for implementation on November 18, 2010. PCR was released on November 16, 2011 and, beginning with the 2012 crop year, revenue insurance coverage will be available for popcorn growers in all states and counties where the Popcorn APH Program is currently available. The PCR program will provide both yield and revenue protection with a projected price and harvest price commensurate with commodity markets for grain corn.

Camelina Pilot: The Camelina pilot program, submitted to FCIC by Crop Insurance Systems and the Great Plains Oil and Exploration LLC, was first submitted to FCIC as a Concept Proposal in January 2010. It was followed by a full 508(h) product submission and was approved by the Board on September 22, 2011. The Camelina program was released on December 1, 2011 and, beginning with the 2012 crop year, insurance coverage will be available to camelina growers in 41counties in Montana and 11 in North Dakota.

Specialty Trait Soybeans (STS): The STS program, submitted to FCIC by Watts and Associates on behalf of the United Soybean Board and the Northern Food Grade Soybean Association, was first submitted to FCIC as a Concept Proposal in October 2009. It was followed by a full 508(h) product submission and was approved by the Board on May 19, 2011. STS was released on December 1, 2011. The new STS program was combined with the existing specialty type soybean program for simplification and ease of administration. STS will be available beginning with the 2012 crop year and provides producers with the ability to elect revenue protection for specialty soybean types. STS is available in Arkansas, Iowa, Michigan, Minnesota, Missouri, North Dakota, South Dakota, Ohio and Virginia.

Regulations:

Area Risk Protection Insurance

The proposed rule public comment period ended on September 21, 2011. Responses to the public comments are being prepared as part of the final rule process. The final rule will replace the Group Risk Plan (GRP) provisions in CFR part 407, which includes the following GRP policy materials: Basic Provisions, Barley Crop Provisions, Corn Crop Provisions, Cotton Crop Provisions, Forage Crop Provisions, Peanut Crop Provisions, Sorghum Crop Provisions, Soybean Crop Provisions, and Wheat Crop Provisions, with a new Area Risk Protection Insurance (ARPI) Basic Provisions and ARPI Crop Provisions for each of these crops except Barley and Peanuts.

The new ARPI provisions will also replace the Group Risk Income Protection (GRIP) Basic Provisions, the GRIP Crop Provisions, and the GRIP-Harvest Revenue Option (GRIP-HRO). ARPI will offer producers a choice of Area Revenue Protection, Area Revenue Protection with the Harvest Price Exclusion or Area Yield Protection, all within one Basic Provision and applicable Crop Provisions. This will reduce the amount of information producers must read to determine the best risk management tool for their operation and will improve the provisions to better meet the needs of producers. The final rule is targeted to be in effect for the 2014 crop year.

Catastrophic Risk Protection Endorsement (CAT)
The proposed rule public comment period ended on October 17, 2011. Responses to the public comments are being prepared as part of the final rule process. The final rule updates language in the CAT Endorsement to be consistent with the 2011 Common Crop Insurance Policy Basic Provisions and the area plans of insurance.

Fresh Market Tomato (Dollar Plan) Policy
The proposed rule public comment period ended on December 19, 2011. Responses to the public comments are being prepared as part of the final rule process. The final rule is targeted to be in effect for the 2013 crop year.

Regulation for Ineligibility for Programs
The comment period ended on February 3, for 7 CFR Part is 400 General Administrative Regulations; Mutual Consent Cancellation; Food Security Act of 1985, Implementation; Denial of Benefits; and Ineligibility for Programs under the Federal Crop Insurance Act which was published in the Federal Register on December 5, 2011. FCIC proposed to amend the General Administrative Regulations to revise Subpart U – Ineligibility for Programs under the Federal Crop Insurance Act to eliminate redundancies, improve clarity, remove or update obsolete references, and add references to other provisions regarding ineligibility for Federal crop insurance. In addition, FCIC proposed to remove Subpart C - General Administrative Regulations; Mutual Consent Cancellation and Subpart F - Food Security Act of 1985, Implementation; Denial of Benefits. PASD staff will review comments received and make appropriate changes to the proposed rule. Target implementation of the regulation is for 2013 and succeeding crop years.

Onion Policy
The proposed rule public comment period ended on September 20, 2011. The final rule will address coverage for processing onions, allow for expansion of the onion program to additional states and counties, and clarify indemnity calculations. The final rule is targeted to be in effect for the 2013 crop year.

Peach Policy
The proposed rule published January 24, with a comment period that will end March 26. The proposed rule revises the requirements to qualify for fresh peach production; allows optional units by fresh, processing and non-contiguous land; and clarifies quality loss adjustment provisions. The final rule is targeted to be in effect for the 2013 crop year.

Pecan Revenue Policy
The proposed rule public comment period ended on September 20, 2011. Responses to the public comments are being prepared as part of the final rule process. The proposed rule revises the settlement of claims language, provides for optional units and other changes requested by pecan producers. The final rule is targeted to be in effect for the 2013 crop year.

Prune Policy
The proposed rule public comment period ended on February 3. Responses to the public comments are being prepared as part of the final rule process. The proposed rule revises the settlement claim language. The final rule is targeted to be in effect for the 2013 crop year.

<u>Regional Offices Update</u>

Tri-State (Idaho, Oregon and Washington) Grain Growers work with RMA on Issues

The Spokane Regional Office is working with the Tri State Grain growers to address three issues important to wheat growers in the region:

- The price discovery period for winter and spring wheat,
- The binary final planting dates (FPD) for winter wheat; and,
- Coverage on fall planted wheat between planting and the final planting date.

RMA has met with the organization's leaders to review and gain feedback on these issues. First, meeting in the field on January 19; and, again meeting with RMA's Administrator in Washington, DC on January 26. Following the Administrator's meeting, the Regional Office has communicated again with the grain organizations to gain final feedback important in order to affect any changes for the 2013 crop year.

California Wheat

The Davis Regional Office is meeting with stakeholders to address program vulnerabilities associated with dry land wheat. Throughout the state, there are approximately 185,000 acres of dry land wheat insured. The counties for which program changes are being considered are located in the state's San Joaquin and Imperial Valleys. These valleys comprise of almost 122,000 acres of dry land wheat.

New California Pilot Programs

The Olive and Pistachio Pilot Programs are currently in their initial year of sales with a total of 678 policies sold. Applications for insurance coverage ended December 2011. Counties having a significant number of policies sold are Glenn, Kern, Madera, Tehama, and Tulare.

Missouri River Flood Task Force

The webinar, "Farming after the Flood – Farmer Perspectives and Agency Resources", sponsored by University of Nebraska-Lincoln Extension and Iowa State Extension in cooperation with USDA NRCS, FSA, RMA and the U.S. Army Corp of Engineers was held December 14, 2011. There were 242 participants at 24 public viewing sites in five states for the webinar. The webinar evaluation responses indicated Crop Insurance/RMA as the topic covered that was most helpful to the participants operation, followed by the Farmer Panel and the U.S. Army Corps of Engineers programs. Webinar participants reported farming over 210,000 acres impacted by the 2011 Missouri River Flood. Over half (52 percent) of the respondents reported learning about one or more assistance program(s) that they weren't aware of prior to the webinar. Almost three-fourths (74 percent) of the respondents reported they would seek additional information on government programs and resources that may be available to them. RMA's Topeka and St. Paul Regional Offices presented crop insurance information at the webinar. More information, including recorded webinar segments can be found at: http://flood.unl.edu/web/flood/FloodWebinar.

Missouri River Outreach

On February 7-10, St. Paul Regional Office Risk Management Specialists provided insurance update at the Council Bluffs National Crop Insurance Services meeting; toured flood damaged land in Mills and Fremont Counties, Iowa; and met with FSA Committees to discuss crop insurance flood issues. As part of this outreach effort, a Risk Management Specialist participated in a radio interview with Dean Adkins, KMALand, to get the facts out and reinforce the availability of crop insurance. Topics at the meetings and interview included the Special Provisions levee statement, rebuilding of levees to pre-flood specifications, restoration of damaged soils to pre-flood crop yield potential, and prevented planting procedure. Producers were encouraged to work with their agent and Insurance Companies to address concerns and were reminded of the March 15 sales closing date. Similar information will be included in the Fremont and Mills County, Iowa FSA Newsletter directing producers to the RMA website for additional information.

Flood and Levee Impact on Rates

The Omaha District US Army Corps of Engineers reported February 6, that they will have L575 near Percival/Hamburg, IA closed up to pre-flood levee heights by March 1. As of February 6, the Upper and Middle Breaches were 95 percent complete and the Lower Breach was 10 percent complete. Many private levees in the area that are not maintained by the Corps are also being repaired. This is good news for producers who were severely impacted by the 2011 floods. Crop insurance is available for producers who were flooded in 2011 and for many, having the levees repaired will help keep their crop insurance rates steady. The Topeka and St. Paul Regional Offices continue to respond to questions about the impact of Missouri River flood and levee repair on crop insurance rates.

The following Special Provision Statement has been added for 2012 to seven Iowa Counties to address land flooded due to breached levees. The statement affects all 11/30 crops in the Iowa Counties of Fremont, Harrison, Mills, Monona, East & West Pottawattamie, Plymouth, and Woodbury.

> "Land flooded due to a breach in a levee resulting from prior year(s) flooding is insurable. The applicable rate will be assigned based on conditions of the levee and soils on the latter of the sales closing date or earliest planting date. If, by that date, the levee has not been repaired to prior specifications, or if damaged soil (if any) has not been restored to at least the same crop yield potential as prior to the flood event, the land will be classified as high risk and will have the highest rate classification in the county. However, if the levee has been repaired to prior specifications and the soil has at least the same crop yield potential as before the flood, the land will be classified as shown on the current crop year Actuarial Map."

Large Claim Review

The Valdosta Regional Office participated in a large claim with an Approved Insurance Provider (AIP). During the large claim review process, the Valdosta Regional Office determined the Florida citrus fruit policy provisions were being incorrectly applied by the AIP. The AIP and producer disagreed with RMA. The producer appealed the Agency decision to the National Appeals Division (NAD); and the Valdosta Regional Office contended that NAD was not the proper venue to settle the disputed claim since the Appellant's argument was based on an interpretation of the policy. During the preliminary hearing, NAD agreed they did not have jurisdictional authority to conduct an appeal hearing and dismissed the appeal request. NAD informed the appellant of the availability of a Final Agency Determination, the regulatory process for requesting an interpretation of policy regulatory provisions, which the appellant has requested.

Compliance

Final Findings Issued Since the September 2011 Board Meeting

Since the September Board meeting Compliance has issued final findings to reinsured companies for the following amounts: premium overstatements - $1,950,865; indemnity overpayments - $3,563,546; premium understatements - $91,011; indemnity underpayments - $29,718; and indemnity cost avoidance $20,672,535.

Program Integrity

In early January, a Columbus County, SC tobacco producer pled guilty to conspiring to make false statements; to make material false statements; and to commit mail fraud and wire fraud, all in connection with a widespread tobacco investigation that initially began in Wilson County, NC. The producer allowed his name to be used in connection with federal crop insurance and tobacco contracts to facilitate the sale of hidden tobacco. Sentencing is set for April 16.

In December 2011, an Iowa crop insurance agent agreed to pay $834,898 to the Federal Crop Insurance Corporation to settle allegations of submitting false claims. The Federal lawsuit alleged that the agent submitted forged crop insurance applications and other false insurance documents to an Approved Insurance Provider.

In November 2011, a crop insurance Claims Supervisor pled guilty to one count of Conspiracy to Make False Statements in the U.S. District Court of Eastern North Carolina. The individual was ordered to pay a fine in the amount of $75,000 and sentenced to five years of probation.

In October 2011, the Special Investigations Branch (SIB) issued a corrected final finding reporting cost avoidance in the amount of $209,859 and premium overstatements in the amount of $70,219. SIB reviewed this policy in response to an Office of Inspector General hotline complaint and determined that the producer failed to report significant tobacco production that materially affected the amount of his 2008 and 2009 claims. The Company agreed with SIB's determination which was supported by evidence from RJ Reynolds.

Quality Control and $100K Indemnity Reviews

The Standard Reinsurance Agreement for 2012 has been amended to change the requirement to review policy indemnities over $100K to the new threshold of $200K for the 2012 reinsurance year. This will have several positive program oversight impacts including addressing longstanding producer requests to increase the threshold and freeing up Company quality control assets to take on additional Spot Check List responsibilities this year.

National Program Operations Review (NPOR)

The regional Compliance Offices have completed all but a few remaining findings from last year's round of NPORs for the 2010 crop year. The offices will start the 2011 crop year NPORs in March, along with finalizing last year's Spot Check List reviews and getting ready to distribute the Spot Check List from the 2011 crop year.

Ongoing Tobacco Program Review

The RMA Regional and Compliance Office in Raleigh are preparing for the 2012 tobacco program changes that include third party grading requirements for quality adjustment and another round of targeted spot checks of anomalous tobacco growers. RMA will again use data mining to review the tobacco program experience for 2011 to identify growers for monitoring.

Compliance recently met with the U.S. Attorney for the Eastern District of North Carolina and the lead prosecutor to express appreciation for the work that office is doing to pursue tobacco program abuse and for the ongoing commitment to prosecute the large number of tobacco producers who have been identified during the current investigation.

The work in assisting the Office of Inspector General with tobacco program investigations in Kentucky and Tennessee is also continuing and is expected to yield successful prosecutions in those states as well.

Supplemental Revenue Assistance Program (SURE) Referrals

As of February 22, 2012, the regional Compliance Offices have received 6,273 SURE referrals from FSA or about 800 more than was reported to the Board in the September report. Compliance began receiving 2008 crop year SURE program referrals from FSA in January 2010. Since FSA relies on crop insurance program data to calculate payments under SURE, FSA is in a position to discover reporting discrepancies while reviewing producer applications. Compliance is currently receiving referrals for the 2010 crop year as a result of FSA opening that crop year for SURE applications.