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August 9, 2013

**INFORMATIONAL MEMORANDUM**

To: Approved Insurance Providers

From: Jeff Yasui /s/  
Director

**SUBJECT:** Reinsurance Year 2014, Regional Underwriting Guidelines for Category C Perennial Actual Production History (APH) Crops in the Davis RO Region

**BACKGROUND:**

The 2014 FCIC 18010 Crop Insurance Handbook (CIH) provides Regional Offices (ROs) with the authority to issue RO underwriting procedures for regional exception(s) in the form of RO Underwriting Guidelines for Category C crops.

These RO Underwriting guidelines apply for the: 1) 2015 crop year Citrus; 2) 2015 crop year Macadamia Nut; and 3) 2014 crop year for all other Category C APH crops in Arizona, California, Hawaii and Utah.

**ACTION:**

**A. Higher Yield Requests:**

Par. 1581A of the CIH allows the insured to request a RO determined yield higher than the average APH yield with reasonable cause. The Davis Regional Office (DRO) will accept higher yield requests for orchards that have recently become insurable and have less than four years of actual yields in their APH Database. In addition, the DRO will accept requests for orchards/vineyards that have at a minimum four years of actual yields in the APH database (with the exception of higher yield requests for added land).

In these situations, the request for higher yields must meet one or more of the following conditions for the DRO to consider:

1. Contains bearing acreage coming into insurable production;
2. Changes in farming, management, or cultural practices;

3. Removal of older block(s) or portions of block(s); or
4. Recently purchased orchard from another grower.

In addition, the insured must provide at least two years of actual yields that reflect the conditions that have changed and resulted in higher yields. If the insured doesn't meet one of the conditions identified and/or doesn't provide at least two years of the applicable actual yields, then the AIP will use standard APH procedures in approving the yield.

**B. Higher Yield Requests for Almonds only:**

For orchards that have less than four years of actual yields, the grower may request a higher yield. Instead of forwarding the request to the DRO for an 8<sup>th</sup> leaf or 9<sup>th</sup> leaf acreage, the AIP may establish the approved yield using the following procedures. AIPs shall submit the APH database to RMA using the special case yield indicator "H" [see Para. 1581A of the CIH].

However, higher yield requests for 5<sup>th</sup>, 6<sup>th</sup>, and 7<sup>th</sup> leaf acreage, must be forwarded to the DRO.

1. Yield History Requirement. In order to establish a higher yield per these procedures, growers are required to provide their yield history to the AIP. If the grower doesn't provide any yield history, the AIP must use standard APH procedures in calculating the insured's approved yield.

The AIP will use Table 1 below in establishing a higher yield.

*Table 1. Multiplicative factors by age and maximum yields.*

		Maximum Yield Allowed		
AGE	Multiplicative Factor	Region I (Butte, Colusa, Glenn, Solano, Sutter, Tehama, Yolo and Yuba counties)	Region II (Merced, San Joaquin and Stanislaus counties)	Region III (Fresno, Kern, Kings, Madera and Tulare counties)
8 <sup>th</sup> leaf	1.10	2600	3100	3600
9 <sup>th</sup> leaf	1.10	2900	3400	4000

2. Approving a higher yield.

- a. Determine the age of the acreage that will be insured for the current crop year.
- b. Using Table 1, find the age of that acreage and the corresponding Multiplicative Factor.
- c. Determine the calculated yield using the following procedure:
  - 1 If 8<sup>th</sup> leaf, use the two year average of 6<sup>th</sup> and 7<sup>th</sup> leaf production. If 5<sup>th</sup> leaf was insured, then use the three year average (5<sup>th</sup>, 6<sup>th</sup> and 7<sup>th</sup>). Multiply the average by 1.10 to give you the calculated yield.  
  
**(NOTE: Leaf age production must be in the database.)**
  - 2 If 9<sup>th</sup> leaf, use the three year average of 6<sup>th</sup>, 7<sup>th</sup>, and 8<sup>th</sup> leaf production. Multiply the average by 1.10 to give you the calculated yield. If 5<sup>th</sup> leaf was insured, then use the four year average (5<sup>th</sup>, 6<sup>th</sup>, 7<sup>th</sup>, and 8<sup>th</sup>) as the approved yield.
- d. Determine the approved yield by using the calculated yield in step c above and the maximum yield shown for the appropriate age and region in Table 1, **approve the LOWEST of** either the calculated yield or the maximum yield allowed for the region.

If the approved yield exceeds the maximum yield allowed, the grower may request an administrative review from the DRO.

**Example 1.** An insured in Fresno County has an orchard that was planted in 2007. The first year of insurance is 6<sup>th</sup> leaf. The orchard produced 2,400 lbs./acre in 6<sup>th</sup> leaf; 2,800 lbs./acre in 7<sup>th</sup> leaf. The new insured requests a higher yield for their 8<sup>th</sup> leaf orchard.

1. It is determined that the orchard will be 8<sup>th</sup> leaf in 2014. [(2014 – 2007) + 1]
2. Per Table 1, use the multiplicative factor of 1.10 for an orchard going from 7<sup>th</sup> to 8<sup>th</sup>.
3. The average yield is 2,600 lbs. /acre (2,400 + 2,800/2).
4. The average yield (2,600 lbs.) times the multiplicative factor (1.10) equals 2,860
5. The orchard is in region III.
6. The maximum yield allowed is 3,600.

7. The calculated yield of 2,860 is less than the maximum yield of 3,600.
8. Approve 2,860 lbs. /acre.

**Example 2.** An insured in Fresno County applies for an orchard that was planted in 2006. The acreage was insured in 5<sup>th</sup> leaf. In 5<sup>th</sup> leaf, it produced 1,400 lbs. /acre. The orchard produced 2,400 lbs. /acre in 6<sup>th</sup> leaf; 2,800 lbs. /acre in 7<sup>th</sup> leaf; and 3,200 lbs. acre in 8<sup>th</sup> leaf.

1. It is determined that the orchard will be 9<sup>th</sup> leaf in 2014. [(2014 – 2006) + 1]
2. No multiplicative factor will be used since there are four years of actual yield history.
3. The four year average yield is 2,450 lbs. /acre [(1400+2400+2800+3200)/4].
4. The approved yield is 2,450 lbs. /acre.

In this case, the simple four year average yield is approved. The grower may request an administrative review from the DRO.

### **C. Yield Trend Exceptions:**

The APH database test for High Variability of Actual Yields guidelines contained in CIH Par. 1562, are modified as follows:

1. An AIP may approve the Average APH Yield for APH Databases that meets the downward trend testing guidelines (see CIH Par. 1562 E) and does not meet any of the following criteria (Assigned Yields are used in the same manner as actual yields when calculating APH yields):
  - a. Both of the previous two years are less than 75% of the Average APH Yield; or
  - b. Three or more years are less than 75% of the Average APH Yield in the last four or five years; or
  - c. One or more years in the most recent five years contains an Assigned Yield (P Yield Type).
2. When an APH database does not meet the additional criterion provided in Section C.1, AIPs shall submit the APH database to RMA using the

special case yield indicator “F”. The AIP may use yield adjustment (YA) procedures if selected by the insured (see CIH Part 12, Sect. 3). When using the YA indicate only on the P11 record and use the appropriate flag of 12 on the P15 when submitting to RMA.

3. When an APH database meets either criterion in C.1.a., b., or c., the following table (Table 2.) and formula are used by the AIP to determine an Approved APH yield:
  - a. Determine the downward trend factor by dividing the most recent three-year average yield by the Average APH Yield.
  - b. Find the corresponding yield adjustment factor (YAF) in Table 2.
  - c. Use the corresponding YAF in the table below to determine the Approved APH Yield.

*Table 2. Downward Trend Factor and Yield Adjustment Factor*

Approved APH Yield = Average APH Yield x YAF	
Downward Trend Factor <sup>1</sup>	YAF
1.0-	1.00
.74 -	0.80
.64 -	0.70
.54 -	0.60
.44 -	0.50
.34 -	0.40
.24 -	0.30

<sup>1</sup>Round to the nearest 100<sup>th</sup>

- d. If adjusted by the above formula, AIPs must submit the APH database to RMA with special case yield indicator “DF” and YA do not apply.

**Example:** An insured submits the following APH database, which meets the criteria for High Variability of Actual Yields guidelines. Using the Downward Trend Factor and Yield Adjustment Factor (Table 2), the following approved APH Yield was determined and submitted to RMA with the special case yield indicator “DF”:

Year	Yield	Calculations
2007	1,500	Simple Average Yield: 950
2008	1,800	Low Years $950 \times .75 = 713$ , 3 years in 5 years
2009	<b>500*</b>	Three year average = 633
2010	1,250	Trend Factor = $633/950 = .67$
2011	<b>550*</b>	Use a YAF = .80
2012	<b>100*</b>	$950 \times .80 = 760$ DF

**D. Policy Exceptions for Grapes and Stonefruit:**

In Section 7(e) of the Grape crop provisions (CP), a minimum production requirement has been established. The CP states:

“That have produced an average of at least two tons of grapes per acre ( or as otherwise provided in the Special Provisions) in at least one of the three crop years immediately preceding the insured crop year, unless we inspect and allow insurance on acreage that has not produced this amount.”

In Section 6(b)(5) of the Stonefruit crop provisions (CP), a minimum production requirement has been established. The CP states:

“Have produced at least 200 lugs of fresh market production per acre, or at least 2.2 tons per acre for processing crops, in at least one of the four most recent actual production history crop years, unless we inspect such acreage and give our approval in writing;

For Grape and Stonefruit APH databases submitted that have not met the minimum production requirement, the AIP may approve the preliminary yield provided it meets the following requirements:

1. Databases has 4 – 10 years of actual production history;
2. Does not meet the criteria for the yield variance and/or the downward trend adjustment; and
3. YA’s are not allowed in the approval of the preliminary yield.

When the preliminary yield is approved, AIPs must submit the APH database to RMA using the Yield Indicator “F”.

**E. Deadline Extension:**

1. In accordance with CIH Par. 1540, the deadline for submitting PAIR’s to the RO is extended to 60 days after the Production Reporting Date (PRD).

The extended submission date only applies to PAIRs performed for RO determined yield requests.

2. Policies submitted to the RO for Higher Yield requests outlined in this underwriting guide, received in the RO later than 60 days after the PRD will receive an approved yield based on the procedures either within the CIH or these guidelines.
3. Requests received after the extension in Para. E(1) above will still be accepted by the RO when the request results in a lower Approved APH yield.

Please contact the Davis RMA RO if you have any questions.