



April 19, 2013

United States
Department of
Agriculture

INFORMATIONAL MEMORANDUM

Risk
Management
Agency

TO: All Northeast Approved Insurance Providers

Raleigh
Regional Office

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SUBJECT: **REVISED** Reinsurance Year 2013 Regional Underwriting Guidelines for Category C Actual Production History (APH) Crops in the Raleigh RO Region

BACKGROUND:

The Raleigh Regional Office previously issued an Informational Memorandum, "Reinsurance Year 2013 Regional Underwriting Guidelines for Category C Actual Production History (APH) Crops in the Raleigh RO Region," on September 17, 2012. It has come to our attention that catastrophic loss years were not removed in accordance with this Informational Memorandum, which may have inappropriately triggered high variability calculations.

The 2013 FCIC 18010 Crop Insurance Handbook (CIH) authorizes the Risk Management Agency (RMA) Regional Offices (ROs) to issue underwriting procedures for Category C crops that modify procedure for high variability of yields and provide additional underwriting procedures for regional exceptions. CIH Section 16H(8)(c) provides procedures and formulas designed to identify alternate bearing for Category C crop yields.

ACTION:

Effective for the 2013 crop year only, AIPs should reexamine all previously denied RO Determined Yield requests and follow the procedures listed under 'Action A. High Variability Requests 1.a.' of the September 17, 2012 Informational Memorandum, the 2013 CIH and clarification provided in this Informational Memorandum.

Each AIP will be provided a list from the Raleigh RO to identify policyholders who previously submitted a request for a RO Determined Yield which should be reexamined. Any determinations made by the AIP in accordance with this Informational Memorandum will serve as the final decision for the policyholder's RO Determined Yield for the 2013 crop year.

The following restates the action provided in the September 17, 2012 Informational Memorandum:

“A. High Variability Requests

1. For blocks or units meeting the high variability criteria for yield variance and alternate bearing [see Section 16H(8)(b) and (c)], the AIP may approve the yield using the standard Category C Actual Production History (APH) procedure, if:
 - a. The AIP verifies the high variability is due to weather related events in 2011 and 2012, resulting in low yields; and [...*]

If applicable, yield substitution (YA) is authorized; however, CUP procedure is not applicable for any database identified for high variability of actual yields.

2. The approved yield (calculated in 1. above) must be reported to the policy Acceptance and Storage System (PASS) with RMA RO determined yield indicator “F” (CIH Section 16H(8)(c)5b). ”

*A. High Variability Requests 1.b. is removed and should not be considered.

In addition to the September 17, 2012 Informational Memorandum, the 2007 catastrophic loss year should also be removed in accordance with “Reinsurance Year 2012 Regional Underwriting Guidelines Category C Perennial Crops Actual Production History (APH) Crops – Apples, Blueberries, Cranberries, Grapes, Peaches, and Pears in Connecticut, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, North Carolina, Pennsylvania, Rhode Island, Vermont, Virginia, and West Virginia,” issued on September 14, 2011.

The following example is provided to assist AIPs in correctly identifying and removing catastrophic loss years from policyholder’s APH database, per this Informational Memorandum and in addition to instructions in Section 16H(8)(c) of the 2013 CIH:

Policyholder’s APH Database with Actual Yields

Crop Year	Yield
2003	1200
2004	1200
2005	200
2006	1200
2007	200
2008	1200
2009	200
2010	1200
2011	200
2012	200

If the policyholder’s yields meet the requirements in Action **A. High Variability Requests** 1.a. above,

the AIP is authorized to temporarily remove these years and yields from the policyholder's APH database for the purpose of calculating the high variability test. The following shows the policyholder's modified database with the authorized catastrophic years removed:

Policyholder's MODIFIED APH Database

Crop Year	Yield
2003	1200
2004	1200
2005	200
2006	1200
2007	-
2008	1200
2009	200
2010	1200
2011	-
2012	-

High Variability Calculation

1. Calculated Average APH Yield: $(6,400/7=914)$
2. Determine the number of actual yields that are less than 75 percent of the average APH yield: $(914*0.75=686)$ therefore, there are two actual yields less than 686.
3. Compare the number of actual yields that are less than 75 percent of the average APH yield to the number of actual yields contained in the APH database. Determine if the comparison meets the requirements in the following chart:

NUMBER OF TIMES THE ANNUAL ACTUAL YIELD IS LESS THAN 75 PERCENT OF THE AVERAGE APH YIELD	NUMBER OF YEARS OF ACTUAL YIELDS CONTAINED IN THE APH DATABASE
2	4-5
3	6-7
4	8-10

For this example, there are two actual yields out of seven years, in the APH database, that are less than 75 percent of the average APH yield of actual yields.

4. Determine whether one of the actual yields, that were less than 75 percent of the average APH yield, occurred during the most recent three crop years.

For this example, none of the most three recent actual yields were less than 75 percent of the average APH yield in the modified APH database.

5. If the modified database does:
 - a. Not meet the requirements in step 3 and 4, no further APH database tests are conducted and no adjustment for high variability is required;

***Note: High variability includes Alternate Bearing and Downward Trending tests. For this example, no further tests are needed.**

- b. Meets the requirements in step 3 and 4, AIPs must conduct the Alternate Bearing and Downward Trending tests to determine whether the APH database should be adjusted.

If the AIP must conduct the Alternate Bearing test, the 2007, 2011 and 2012 catastrophic crop years should be removed and prior crop years will be used to make this determination.

These 2013 Regional Office Underwriting Guidelines do not waive or modify procedures in the CIH Section 16H(8)(d) for APH databases that meet the criteria for downward trending.

Please contact the Raleigh Regional Office if you have any additional questions.