LIVESTOCK GROSS MARGIN FOR CATTLE INSURANCE POLICY QUESTIONS AND ANSWERS

1. Q: What is the Livestock Gross Margin for Cattle Insurance Policy?

A: The Livestock Gross Margin for Cattle (LGM for Cattle) Insurance Policy provides protection against the loss of gross margin (market value of livestock minus feeder cattle and feed costs) on feeder cattle. The indemnity at the end of the 11-month insurance period is the difference, if positive, between the gross margin guarantee and the actual gross margin. The LGM for Cattle Insurance Policy uses adjusted futures prices to determine the expected gross margin and the actual gross margin. Adjustments to futures prices are state- and month-specific basis levels. The price the producer receives at the local market is not used in these calculations.

2. Q: Who is eligible for the LGM for Cattle Insurance Policy?

A: Any producer who owns cattle in the states of Colorado, Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Montana, Nebraska, Nevada, North Dakota, Ohio, Oklahoma, South Dakota, Texas, Utah, West Virginia, Wisconsin and Wyoming is eligible for LGM for Cattle insurance coverage.

3. Q: What cattle are eligible for coverage under the LGM for Cattle Insurance Policy?

A: Only cattle sold for commercial or private slaughter primarily intended for human consumption and fed in Colorado, Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Montana, Nebraska, Nevada, North Dakota, Ohio, Oklahoma, South Dakota, Texas, Utah, West Virginia, Wisconsin and Wyoming are eligible for coverage under the LGM for Cattle Insurance Policy.

4. Q: What are the advantages of the LGM for Cattle Insurance Policy over traditional options?

A: LGM for Cattle has two advantages over traditional options.

Convenience. Producers can sign up for LGM for Cattle twelve times per year and insure all of the cattle they expect to market over a rolling 11-month insurance period. The producer does not have to decide on the mix of options to purchase, the strike price of the options, or the date of entry.

Customization. The LGM for Cattle policy can be tailored to any size farm. Options cover fixed amounts of commodities and those amounts may be too large to be used in the risk management portfolio of some farms.

5. Q: How is LGM for Cattle different from traditional options?

A: LGM for Cattle is different from traditional options in that LGM for Cattle is a bundled option that covers both the cost of feeder cattle and the cost of feed. This bundle of options effectively insures the producer's gross margin (cattle price minus feeder cattle and feed costs) over the insurance period.

6. Q: Can LGM for Cattle be exercised?

A: No. LGM for Cattle cannot be exercised. LGM works as a bundle of options that pay the difference, if positive, between the value at purchase of the options and the value at the end of a certain time period. So, LGM for Cattle would pay the difference, if positive, between the gross margin guarantee and the actual gross margin, as defined in the policy provisions.

7. Q: Does LGM for Cattle use the price the producer actually receives at the market?

A: No. The prices for LGM for Cattle are based on simple averages of futures contract daily settlement prices plus a fixed basis and are not based on the actual prices the producer receives at the market.

8. Q: Does LGM for Cattle make early indemnity payments?

A: Yes. If an indemnity is due under LGM for Cattle coverage, the company will send the producer a notice of probable loss after the last month of the producer's marketing plan. The last month of the producer's marketing plan is the last month in which the producer indicated target marketings on the application.

9. Q: How is the underwriting capacity for LGM for Cattle distributed?

A: LGM for Cattle has limited underwriting capacity that will be distributed through the Federal Crop Insurance Corporation's underwriting capacity manager. The underwriting capacity will be distributed on a first come, first served basis. LGM for Cattle will not be offered for sale after capacity is full or at any time the underwriting capacity manager is not functional.

10. Q: When is LGM for Cattle sold and how long do the sales periods last?

A: LGM for Cattle is sold on the last business day of each month. The sales period begins as soon as the Risk Management Agency (RMA) validates the data submitted by the developer after the close of markets on the last day of the price discovery period. The sales period ends at 9:00 AM the following day. If expected gross margins are not available on the RMA website, LGM for Cattle will not be offered for sale for that insurance period.

11. Q: What types of losses are covered by LGM for Cattle?

A: LGM for Cattle covers the difference between the gross margin guarantee and the actual gross margin. LGM for Cattle does not insure against death loss or any other loss or damage to the producer's cattle.

12. Q: Where can I purchase LGM for Cattle coverage?

A: LGM for Cattle is available for sale at your authorized crop insurance agent's office. Crop insurance agents must be certified by an insurance company to sell LGM for Cattle and that agent's identification number must be on file with the Federal Crop Insurance Corporation.

13. Q: What makes up the Insurance Period?

A: There are twelve insurance periods in each calendar year. Each insurance period runs for 11 months. For the first month of any insurance period, no cattle can be insured. Coverage begins on your cattle one full calendar month following the sales closing date, unless otherwise specified in the Special Provisions, provided premium for the coverage has been paid in full. For example, the insurance period for the January 31 sales closing date contains the months of February (cattle not insurable), March, April, May, June, July, August, September, October, November, and December.

14. Q: What are the Producer's Target Marketings?

A: A determination made by the insured as to the maximum number of slaughter-ready cattle that the producer will market (sell) during the insurance period. The target marketings must be less than or equal to that producer's applicable approved target marketings as certified by the producer.

15. Q: What are the Producer's Approved Target Marketings?

A: The Producer's Approved Target Marketings are the maximum number of cattle that may be stated as Target Marketings on the application. Approved Target Marketings are certified by the producer and are subject to inspection by the insurance company. A producer's Approved Target Marketings will be the lesser of the capacity of the producer's cattle operation for the 11-month insurance period as determined by the insurance provider and the underwriting capacity limit as stated in the special provisions.

16. Q: What is the Expected Corn Price?

A: Expected corn prices for months in an insurance period are determined using three-day average settlement prices on CBOT corn futures contracts and a basis adjustment that varies by month and state. For corn months with unexpired futures contracts, the expected corn price is the simple average of the CBOT corn futures contract for that month over the last three trading days in the month of the sales closing date expressed in dollars per bushel plus the state-specific corn basis for that month. For example, for a sales closing date of February 28, the expected corn price for July in Iowa equals the simple average of the daily settlement prices on the CBOT July corn futures contract over the last three trading days in February plus the July Iowa corn basis. For corn months with expired futures contracts, the expected corn price is the simple average of daily settlement prices for the CBOT corn futures contract for that month expressed in dollars per bushel in the last three trading days prior to contract expiration plus the state-specific corn basis for that month. For example, for a sales closing date of March 31, the expected corn price for March in Nebraska is the simple average of the daily settlement prices on the CBOT March corn futures contract over the last three trading days prior to contract expiration plus the March Nebraska corn basis. For corn months without a futures contract, the futures prices used to calculate the expected corn price are the weighted average of the futures prices used in calculating the expected corn prices for the two surrounding months that have futures contract plus the state-specific basis for the month. The weights are based on the time difference between the corn month and the contract months. For example, for the March 31st sales closing

16. A: (cont.)

date, the expected corn price for April in Kansas equals one-half times the simple average of the daily settlement prices on the CBOT March corn futures contract over the last three trading days prior to contract expiration plus one-half times the simple average of the daily settlement prices on the CBOT May corn futures contract for the last three trading days in March plus the April Kansas corn basis. See the LGM for Cattle commodity exchange endorsement for additional detail on exchange prices. Prices will be released by RMA after the markets close on the last day of the price discovery period.

17. Q: What is the Expected Feeder Cattle Price?

A: Expected feeder cattle prices for months in an insurance period are determined using three-day average settlement prices on CME feeder cattle futures contracts and a basis adjustment that varies by month, state, and type of operation. For feeder cattle months with unexpired futures contracts, the expected feeder cattle price is the simple average of the CME feeder cattle futures contract for that month over the last three trading days in the month of the sales closing date expressed in dollars per hundredweight plus the state-specific and operation-specific feeder cattle basis for that month. For example, for a sales closing date of February 28, the expected feeder cattle price for May in Texas for a yearling finishing operation equals the simple average of the daily settlement prices on the CME May feeder cattle futures contract over the last three trading days in February plus the May Texas feeder cattle basis for a yearling. For feeder cattle months with expired futures contracts, the expected feeder cattle price is the simple average of daily settlement prices for the CME feeder cattle futures contract for that month expressed in dollars per hundredweight in the last three trading days prior to contract expiration plus the state-specific and operation-specific feeder cattle basis for that month. For example, for a sales closing date of April 30, the expected feeder cattle price for March in Missouri for a calf finishing operation is the simple average of the daily settlement prices on the CME March feeder cattle futures contract over the last three trading days prior to contract expiration plus the March Missouri feeder cattle basis for a calf. For feeder cattle months without a futures contract, the futures prices used to calculate the expected feeder cattle price are the weighted average of the futures prices used in calculating the expected feeder cattle prices for the two surrounding months that have futures contract plus the state-specific and operation-specific feeder cattle basis for the month. The weights are based on the time difference between the feeder cattle month and the contract months. For example, for the April 30 sales closing date, the expected feeder cattle price for July in South Dakota for a calf finishing operation equals one-third times the simple average of the daily settlement prices on the CME August feeder cattle futures contract over the last three trading days in April plus two-thirds times the simple average of the daily settlement prices on the CME May feeder cattle futures contract over the last three trading days in April plus the July South Dakota feeder cattle basis for a calf operation. See the LGM for Cattle commodity exchange endorsement for additional detail on exchange prices. Prices will be released by RMA after the markets close on the last day of the price discovery period.

18. Q: What is the Expected Cost of Feed?

A: For yearling finishing operations, the expected cost of feed for each month equals 57.5 bushels times the expected corn price for that month. For calf finishing operations, the expected cost of feed for each month equals 54.5 bushels times the expected corn price for that month.

19. Q: What is the Expected Cattle Price?

A: Expected cattle prices for months in an insurance period are determined using three-day average settlement prices on CME live cattle futures contracts and a basis adjustment that varies by month and state. Given the differences in contract structure for CME live cattle futures contracts, only the February, April, June, August, October, and December CME live cattle futures are used in LGM for Cattle price calculations. For cattle months with unexpired futures contracts, the expected cattle price is the simple average of the CME live cattle futures contract for that month over the last three trading days in the month of the sales closing date expressed in dollars per hundredweight plus the state-specific cattle basis for that month. For example, for a sales closing date of February 28, the expected cattle price for August in California equals the simple average of the daily settlement prices on the CME August live cattle futures contract over the last three trading days in February plus the August California cattle basis. For cattle months without a futures contract, the futures prices used to calculate the expected cattle price are the weighted average of the futures prices used in calculating the expected cattle prices for the two surrounding months that have futures contracts plus the state-specific basis for the month. The weights are based on the time difference between the cattle month and the contract months. For example, for the March 31 sales closing date, the expected cattle price for November in Washington equals one-half times the simple average of the daily settlement prices on the CME October live cattle futures contract over the last three trading days in March plus one-half times the simple average of the daily settlement prices on the CME December live cattle futures contract for the last three trading days in March plus the November Washington cattle basis. See the LGM for Cattle Commodity Exchange Endorsement for additional detail on exchange prices. Prices will be released by RMA after the markets close on the last day of the price discovery period.

20. Q: What is the Expected Gross Margin Per Head of Cattle?

A: The expected gross margin per head of cattle in a month for a particular state for a yearling finishing operation is the expected cattle price for the state and for the month the cattle are marketed times the assumed weight of the cattle at marketing (12.5 cwt.), minus the expected feeder cattle price for the state five months prior to the month the cattle are marketed times the assumed weight of the feeder animal (7.5 cwt), minus the expected cost of feed two months prior to the month the cattle are marketed

Expected gross margin per head of cattle for a yearling finishing operation =

$(12.50 * LiveCattle_t) – (7.50 * FeederCattle_{t-5}) - (57.5 * Corn_{t-2})$

20. A: (cont.)

The expected gross margin per head of cattle in a month for a particular state for a calf finishing operation is the expected cattle price for the state and for the month the cattle are marketed times the assumed weight of the cattle at marketing (11.5 cwt.), minus the expected feeder cattle price for the state eight months prior to the month the cattle are marketed times the assumed weight of the feeder animal (5.5 cwt), minus the expected cost of feed four months prior to the month the cattle are marketed

Expected gross margin per head of cattle for a calf finishing operation =

$(11.50 * LiveCattle_{t}) – (5.50 * FeederCattle_{t-8}) - (54.5 * Corn_{t-4})$

21. Q: How is the Expected Total Gross Margin calculated for each Insurance Period?

A: The expected total gross margin is the sum of the target marketings times the expected gross margin per head of cattle for each month of an insurance period.

If the producer from the above example has 10 head of cattle to sell in June and an expected gross margin per head of $125, the expected total gross margin would be $1,250 (10 x $125 = $1,250).

22. Q: How is the Gross Margin Guarantee calculated for each Insurance Period?

A: The gross margin guarantee for each coverage period is calculated by subtracting the per head deductible times total number of cattle to be marketed from the expected total gross margin for the applicable insurance period.

If our example producer has a $50 per head deductible, the gross margin guarantee equals $750 [$1,250 – (10 x $50)].

23. Q: What is the Actual Corn Price?

A: For months in which a CBOT corn futures contract expires, the actual corn price is the simple average of the daily settlement prices in the last three trading days prior to the contract expiration date for the CBOT corn futures contract for that month expressed in dollars per bushel plus the state-specific corn basis for that month. Note that the state-specific corn basis used to calculate actual corn prices is the same state-specific basis used to calculate expected corn basis for the month. For months when there is no expiring CBOT corn futures contract, the actual corn price is the weighted average of the futures prices on the nearest two contract months plus the state-specific corn basis for the month. The weights depend on the time period between the month in question and the nearby contract months. For example, the actual corn price in April in Wyoming is one-half times the simple average of the daily settlement prices in the last three trading days prior to the contract expiration date of the corn futures contracts that expire in March plus one-half times the daily settlement prices in the last three trading days prior to the contract expiration date of the corn futures contracts that expire in May plus the Wyoming April corn basis.

24. Q: What is the Actual Feeder Cattle Price?

A: For months in which a CME feeder cattle futures contract expires, the actual feeder cattle price is the simple average of the daily settlement prices in the last three trading days prior to the contract expiration date, expressed in dollars per hundredweight, plus the state-specific feeder cattle basis for that month. For other months, the actual feeder cattle price is the simple average of the daily settlement prices in the last three trading days prior to the contract expiration date of the feeder cattle futures contracts that expire in the immediately surrounding months, plus the state-specific feeder cattle basis for that month. For example, the actual feeder cattle price in February for Texas is the simple average of the daily settlement prices in the last three days prior to the contract expiration date of the feeder cattle futures contracts in January and March, plus the February feeder cattle basis for Texas.

25. Q: What is the Actual Cost of Feed?

A: For yearling finishing operations, the actual cost of feed for each month equals 57.5 bushels times the actual corn price for that month, or as stated in the Special Provisions. For calf finishing operations, the actual feed cost for each month equals 54.5 bushels times the actual corn price for that month, or as stated in the Special Provisions.

26. Q: What is the Actual Cattle Price?

A: For the months of February, April, June, August, October, and December, the actual cattle price is the simple average of the daily settlement prices in the last three trading days prior to the contract expiration date for the CME live cattle futures contracts plus the state-specific cattle basis for that month. For the months of January, March, May, July, September, and November, the actual cattle price is the simple average of the daily settlement prices in the last three trading days prior to the contracts that expire in the immediately surrounding months plus the state-specific cattle basis for that month.

27. Q: What is the Actual Gross Margin Per Head of Cattle?

A: The actual gross margin per head of cattle in a month for a particular state for a yearling finishing operation is the actual cattle price for the state and for the month the cattle are marketed times the assumed weight of the cattle at marketing (12.5 cwt.), minus the actual feeder cattle price for the state five months prior to the month the cattle are marketed times the assumed weight of the feeder animal (7.5 cwt), minus the actual cost of feed two months prior to the month the cattle are marketed.

Actual gross margin per head of cattle for a yearling finishing operation =

$(12.50 * LiveCattle_{t}) – (7.50 * FeederCattle_{t-5}) – (57.5 * Corn_{t-2})$

The actual gross margin per head of cattle in a month for a particular state for a calf finishing operation is the actual cattle price for the state and for the month the cattle are marketed times the assumed weight of the cattle at marketing (11.5 cwt.), minus the actual feeder cattle price for the state eight months prior to the

27. A: (cont.)

month the cattle are marketed times the assumed weight of the feeder animal (5.5 cwt), minus the actual cost of feed four months prior to the month the cattle are marketed

Actual gross margin per head of cattle for a calf finishing operation =

$(11.50 * LiveCattle_{t}) – (5.50 * FeederCattle_{t-8}) – (54.5 * Corn_{t-4})$

28. Q: How is the Actual Total Gross Margin calculated?

A: The actual total gross margin is the sum of the target marketings times the actual gross margin per head of cattle for each month of an insurance period.

If the producer in the example sold 10 head of cattle in June and had an actual gross margin per head of cattle of $50, the actual total gross margin would be $500 (10 x $50 = $500).

29. Q: How are Indemnities determined?

A: Indemnities to be paid will equal the difference between the gross margin guarantee and the actual total gross margin for the insurance period.

The producer in our example would receive an indemnity of $250 ($750 - $500 = $250)

30. Q: Is a Marketings Report required and when should the company receive it?

A: Yes, in the event of a loss the producer must submit a Marketings Report and sales receipts showing evidence of actual marketings. The producer must submit the Marketings Report within 15 days of receipt of Notice of Probable Loss.

31. Q: Is this a Continuous Policy?

A: This is a continuous policy with twelve overlapping insurance periods per year. Target marketings must be submitted for each insurance period. If a Target Marketings Report is not submitted by the sales closing date for the applicable insurance period, target marketings for that insurance period will be zero.

32. Q: When must the Application for insurance be turned into the company?

A: The sales closing dates for the policy are the last business day of the month for each of the twelve calendar months. The Application must be completed and filed not later than the sales closing date of the initial insurance period for which coverage is requested. Coverage for the cattle described in the Application will not be provided unless the insurance company receives and accepts a completed Application and a Target Marketings Report, the producer pays the premium paid in full, and the company sends the producer a written Summary of Insurance.

33. Q: When does Coverage begin?

A: Coverage begins one month after the sales closing date. Coverage begins on your cattle one full calendar month following the sales closing date, unless otherwise specified in the Special Provisions, provided premium for the coverage has been paid in full. For example for the January 31 sales closing date, coverage begins on March 1.

34. Q: When are the Contract Change Dates for the policy?

A: The contract change date is April 30. Any changes to the LGM for Cattle Policy will be made prior to this contract change Date.

35. Q: When are the Cancellation Dates for the Policy?

A: The cancellation date is June 30 for all insurance periods.

36. Q: When is the End of Insurance for the Policy?

A: The end of insurance for the policy is 11 months after the sales closing date. For example, for the January 31 sales closing date, coverage ends on December 31.

37. Q: What deductibles are available for the policy?

A: The producer may select deductibles from $0 to $150 per head of cattle, in $10 per head increments.

38. Q: How is the producer's premium calculated?

A: The producer's premium is calculated by a premium calculator program that determines the per head of cattle premium based on target marketings, expected gross margins for each period, and deductibles.

39. Q: When is the premium for the policy due?

A: The premium for the initial insurance period is due with the application for LGM for Cattle Insurance coverage. The premium for all subsequent insurance periods is due with the Target Marketings Report, which is due no later than the sales closing date.

40. Q: What portion of a producer's cattle will be insured under the LGM for Cattle policy?

A: A producer can insure any amount of cattle that the producer owns up to a limit of 5,000 head for any 11-month insurance period and a limit of 10,000 head per crop year. Ownership of insured cattle must be certified by the producer and may be subject to inspection and verification by the insurance company.

41. Q: What information is required for acceptance of an Application for the LGM for Cattle Insurance Policy?

A: The Application for the LGM for Cattle Insurance Policy must contain all the information required by us to insure the gross margin for the animals. Applications that do not contain all social security numbers and employer identification numbers, as applicable (except as stated in the policy), coverage level percent, Target Marketings Report, and any other material information required to insure the gross margin for the animals, will not be acceptable.

42. Q: If a producer has a combination of yearling finishing and calf finishing operations on the same policy, are the guarantees and the loss payments separate?

A: Yes. Guarantees and loss payments are calculated separately for each of these two types of cattle. However, the producer is still limited to covering 5,000 head per insurance period and 10,000 annually.

43. Q: Can the Manager of RMA suspend LGM for Cattle sales?

A: Yes. Sales of LGM for Cattle may be suspended for the next sales period if unforeseen and extraordinary events occur that interfere with the effective functioning of the corn, feeder cattle or live cattle commodity markets. Coverage may not be available in instances of a news report, announcement, or other event that occurs during or after trading hours that is believed by the Secretary of Agriculture, Manager of the RMA, or other designated RMA staff, to result in market conditions significantly different than those used to rate the LGM for Cattle program. In these cases, coverage will no longer be offered for sale on the RMA Website. LGM for Cattle sales will resume, after a halting or suspension in sales, at the discretion of the Manager of RMA.

44. Q: What if the expected gross margins are not posted on the RMA website on the last business day of the month?

A: LGM for Cattle will not be available for sale for that insurance period.