United States Department of Agriculture

Risk Management Agency

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Washington, DC 20250

BULLETIN NO.: MGR-04-009

To: All Reinsured Companies
All Risk Management Agency Field Offices
All Other Interested Parties

FROM: Ross J. Davidson, Jr. */s/ Ross J. Davidson, Jr. 09/03/04*
Administrator

SUBJECT: Sampling and Grading on a Per-Conveyance Basis

BACKGROUND:

Historically, having each conveyance of production sampled and graded for quality adjustment has been a crop insurance requirement for insured producers. The Federal Crop Insurance Corporation (FCIC) approved procedures implied as much for the past 25 to 30 years.

FCIC policy provisions for grains and most oilseed crops required samples to be graded under the authority of the United States Grain Standards Act or the United States Warehouse Act (USWA) with regard to deficiencies in quality. The per-conveyance weighing and sampling requirements generally posed no problems prior to 2003.

Legislation (the 2002 Farm Bill) modified section 508(m) of the Federal Crop Insurance Act to state "…the Secretary shall accept, in the same manner and under the same terms and conditions, evidence of the quality of agricultural commodities…" which allowed grading by State licensed warehouses, provided they are in compliance with their applicable state law and hold a storage agreement with the Commodity Credit Corporation (CCC). The Risk Management Agency (RMA) understands most major grain producing states require samples and grades on a per-conveyance basis; however, some States allow some blending of samples under their state warehouse laws. In addition, RMA has learned it is a standard business practice in certain parts of the country, in some warehouses, including but not limited to USWA licensed warehouses, to pull samples per conveyance, and blend such samples for grading purposes. This situation has caused confusion.

RMA is clarifying its loss adjustment procedure standards for insurance companies regarding the determination of quality adjustments for production from an insurance unit when blended samples are taken on a unit basis. The current procedures were developed to ensure that quality adjustment determinations were appropriate on an insured unit basis. The issue concerns the unanticipated situation where such blending takes place regarding samples from the same unit, which should reflect the overall quality adjustment determination for such unit. Therefore, in the context of the unit structure of farms, RMA has determined that such intra-unit blending of samples can take place consistent with procedures, provided certain conditions are met to ensure that the blending of the samples did not affect the determination of the quality adjustment on a unit basis and thus is the functional equivalent of maintaining the samples by conveyance. RMA also believes that this clarification is consistent with the intent of the modifications made by the 2002 Farm Bill.

ACTION:

RMA is clarifying the application of procedures in its Loss Adjustment Manual (LAM) Standards Handbook to allow quality adjustment determinations of the commodity where samples have been blended by unit. As a result, for the 2004 and succeeding crop years, for grains, oilseeds, dry peas, dry beans, and rice, grades from blended samples, by unit, for non-mycotoxin quality adjustment, from both USWA licensed warehouses and warehouses holding a storage agreement with CCC may be accepted only if all of the following apply:

- The commodity is sold on the same basis as the blended samples used to determine the grading factors for quality adjustment.
- Proof of the sale, sale amount and grades, or signed written certification of pending sale from the buyer including the quantity and quality is provided and is acceptable to the reinsured company.
- The blended sample is representative of all the loads for which it applies and it is determined acceptable by the reinsured company.

In no circumstances will grades from improper blending methods such as the following be accepted:

- A sample from each conveyance, regardless of producer, is put into one container and then a sample is taken from the container at the end of the day or the week. The grade from that sample is applied to each producer's production who delivered grain during that time.
- On a basis greater than the unit structure on which the insurance is based (optional, basic, enterprise, or whole farm, as applicable), all samples from a single producer are put into a container and then a sample is taken from this producer's container when harvest for the crop is completed or when otherwise directed by the producer. The grade from that sample is applied to all of that producer's production.
- A single sample is taken from one conveyance for the producer. The grade from that sample is applied to all of that producer's production.

Reinsured companies are reminded that sampling must still be done on a per-conveyance basis.

This clarification does not affect the sampling and grading procedures for non-delivered (e.g., farm-stored) commodities nor does it change the sampling procedures for delivered commodities.

DISPOSAL DATE:

This Manager's Bulletin will expire upon incorporation into the FCIC-approved loss adjustment procedures.