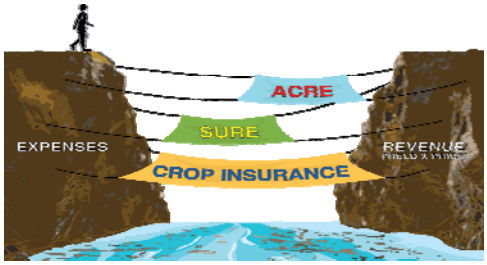
Making Crop Marketing, Insurance, SURE and ACRE Decisions



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Presentation Objectives

- Highlight 2009-10 Crop Supply/Demand, Charts, Price Outlook & Seasonal Trends
- Review Iowa 2009 Estimated Costs of Crop Production
- Help You Build a Bridge to Crop Revenue
  - Crop Insurance
  - SURE
  - ACRE
- Provide 5 Crop Risk Management Strategies & 5 Supporting Web Sites

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Ethanol Usage Projections & Corn Balance Sheet (mil. bu.)

(Med. 2008 Crop Production based on USDA November 10 Crop Estimates)

Updated: 01/12/2009	Historic				Projected	Projected 2009-2010			Low	Projected 2010-2011		
Year: (production/marketing) [1]	*2004-05*	*2005-06*	*2006-07*	*2007-08*	*2008-2009*	*Low*	*Med.* [4]	*High*	*Acreage*	*Low*	*Med.* [4]	*High*
Yield (bu. per acre)	160.4	147.9	149.1	151.1	153.9	148.0	157.5	162.0	158.0	150.0	159.0	164.0
Long-term Historical Yield Probability:						**18%**	**65%**	**17%**		**18%**	**65%**	**17%**
Supplies:												
Planted acres (million)	80.9	81.8	78.3	93.6	86.0	86.5	**86.5**	86.5	83.0	87.5	**87.5**	87.5
Harvested acres (million)	73.6	75.1	70.6	86.5	78.6	78.9	79.5	79.5	76.0	79.9	80.5	80.5
Production (mil. bu.)	11,807	11,114	10,535	13,073	12,101	11,677	12,521	12,879	12,008	11,985	12,800	13,202
Beginning carryover (mil. bu.)	958	2,114	1,967	1,304	1,624	1,715	1,715	1,715	1,715	1,401	1,401	1,401
Total Supply (incl. imports)	**12,776**	**13,237**	**12,514**	**14,398**	**13,740**	**13,409**	**14,251**	**14,609**	**13,738**	**13,403**	**14,216**	**14,618**
Total Usage: (mil. bu.)												
Feed & residual	6,158	6,155	5,598	5,974	5,350	4,950	5,400	5,450	5,300	4,900	5,400	5,450
Ethanol	1,323	1,603	2,117	3,026	3,650	4,150	4,250	4,325	4,200	4,500	4,600	4,775
Food, ind. & seed	1,363	1,378	1,371	1,338	1,300	1,300	1,325	1,335	1,315	1,315	1,335	1,340
Exports	1,818	2,134	2,125	2,436	1,725	1,850	1,875	1,900	1,860	1,850	1,900	1,925
Total Usage	**10,662**	**11,270**	**11,210**	**12,773**	**12,025**	**12,250**	**12,850**	**13,010**	**12,675**	**12,565**	**13,235**	**13,490**
Ethanol Usage: [2]												
Ethanol usage (bu. corn)	1,323	1,603	2,117	3,026	3,650	4,150	4,250	4,325	4,200	4,500	4,600	4,775
DDGS production (Mil. bu. corn equiv.)[3]	256	319	428	634	783	901	922	939	989	989	1,011	1,049
Ethanol usage (bu. per acre)	18	21	30	35	46	53	53	54	55	56	57	59
DDGS production (bu. per acre equiv.)	3	4	6	7	10	11	12	12	13	12	13	13
Ethanol usage (% corn production)	11.2%	14.4%	20.1%	23.1%	30.2%	35.5%	33.9%	33.6%	35.0%	37.5%	35.9%	36.2%
DDGS production (corn equiv.% of crop)	2.2%	2.9%	4.1%	4.8%	6.5%	7.7%	7.4%	7.3%	8.2%	8.2%	7.9%	7.9%
Mil. bu. increase in ethanol vs. prev. year	155	280	514	909	624	500	600	675	4,200	250	350	525
Ending Carryover: (mil. bu.)	**2,114**	**1,967**	**1,304**	**1,624**	**1,715**	**1,159**	**1,401**	**1,599**	**1,063**	**838**	**981**	**1,128**
Carryover as percent of supply	16.5%	14.9%	10.4%	11.3%	12.5%	8.6%	9.8%	10.9%	7.7%	6.3%	6.9%	7.7%
Carryover, weeks of total use	10.3	9.1	6.0	6.6	7.4	4.9	5.7	6.4	4.4	3.5	3.9	4.3
Prices:												
U.S. weighted avg. farm price	$2.06	$2.00	$3.04	$4.20	$3.80	$4.50	$3.70	$3.55	$4.15	$4.75	$3.85	$3.60
Iowa weighted avg. farm price	$1.96	$1.95	$2.99	$4.15	$3.75	$4.45	$3.65	$3.50	$4.10	$4.70	$3.80	$3.55
Counter-cyclical pmt.	$0.30	$0.35	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Harvest price (central Iowa)	$1.60	$1.40	$2.80	$3.30	$3.50	$4.10	$3.25	$3.05	$3.70	$4.50	$3.45	$3.20
Dec. futures price (harvest avg.)	$1.98	$2.00	$3.15	$3.80	$3.85	$4.70	$3.75	$3.55	$4.20	$5.20	$4.05	$3.80

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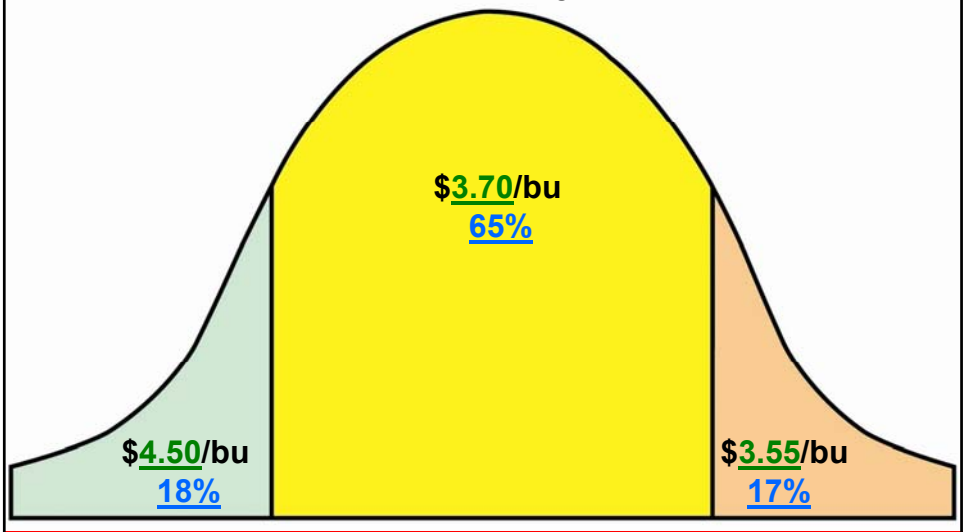
Source: Wisner, ISU Biofuels Economist, Jan. 21st, 2009

Corn Cash Price & Probability Forecast

'09-'10 Marketing Year



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Source: Wisner, ISU Biofuels Economist, Jan. 21st, 2009

New Crop Corn Chart

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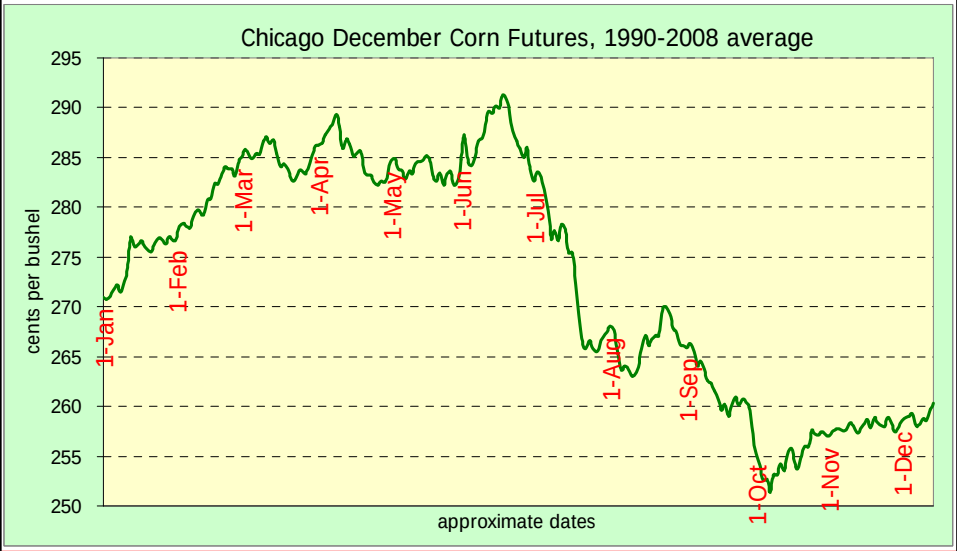
Source: Jim Wyckoff, Jan. 26th, 2009

New Crop Corn Seasonal Trend



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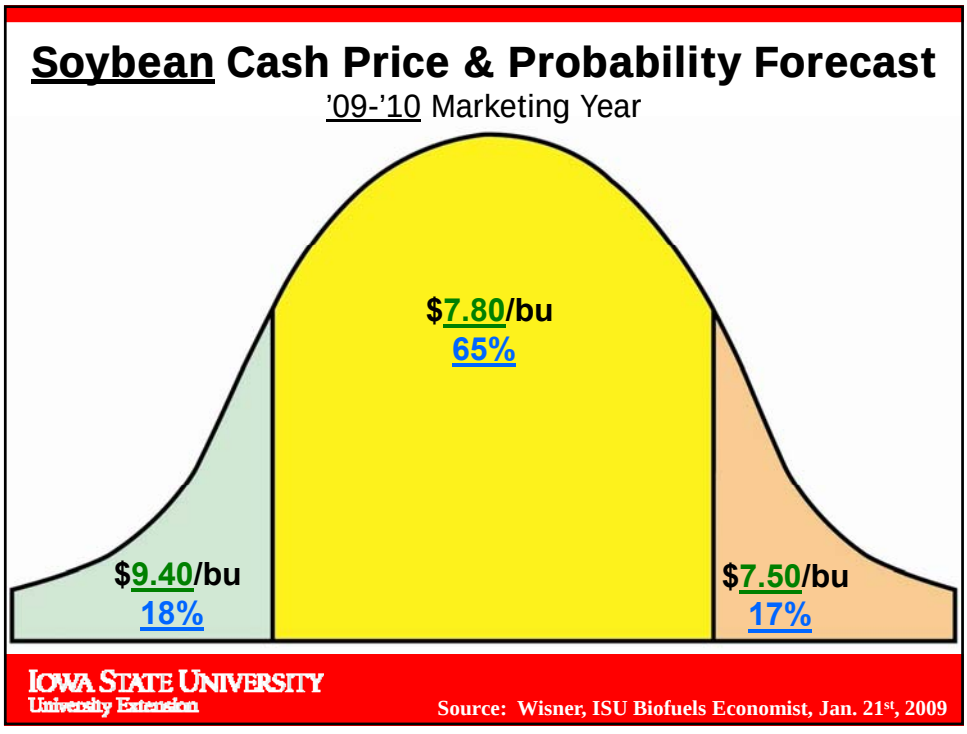
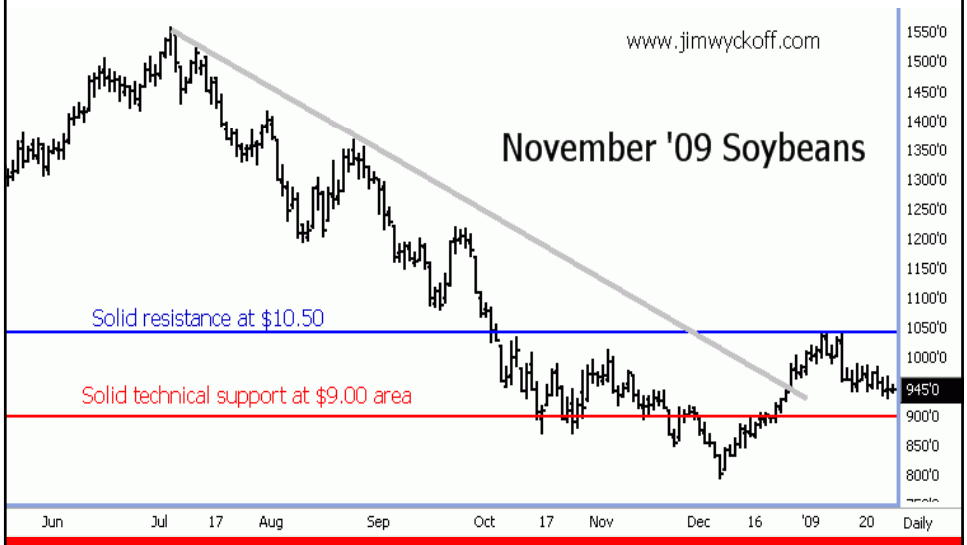
Source: CBOT, U of MN, CFFM, 2008

Updated: 1/12/2009	Historic				Projected	Projected 2009-2010			Low corn	Projected 2010-2011		
Year: (production/marketing) [1]	*2004-05*	*2005-06*	*2006-07*	*2007-08*	*2008-2009*	*Low*	*Med.*	*High*	*Acres*	*Low*	*Med.*	*High*
Yield (bu. per acre)	**42.2**	**43.0**	**42.7**	**41.7**	**39.6**	**39.5**	**43.0**	**44.0**	**43.0**	**40.5**	**43.5**	**44.5**
Long-term historical yield probability:						**18%**	**65%**	**17%**		**18%**	**65%**	**17%**
Soybean Supplies:												
Planted acres (million)	75.2	72.0	75.5	64.7	75.7	77.0	77.0	77.0	79.5	75.0	75.0	75.0
Harvested acres (million)	74.0	71.3	74.6	64.1	74.6	75.9	76.3	76.3	78.8	73.9	74.3	74.3
Production (mil. bu.)	3,124	3,063	3,188	2,676	2,959	2,998	3,281	3,357	3,388	2,993	3,232	3,306
Beginning carryover (mil. bu.)	112	256	449	574	205	218	218	218	218	459	459	459
Total Supply	**3,242**	**3,322**	**3,647**	**3,260**	**3,173**	**3,223**	**3,509**	**3,581**	**3,612**	**3,459**	**3,697**	**3,771**
Total Soybean Usage:												
Crush (mil. bu.)	1,696	1,739	1,808	1,801	1,680	1,705	1,715	1,725	1,730	1,770	1,780	1,790
Seed & residual (mil. bu.)	192	188	149	92	165	180	175	175	175	180	175	175
Exports (mil. bu.)	1,097	947	1,116	1,161	1,110	1,150	1,160	1,175	1,180	1,180	1,190	1,195
Total Usage	**2,986**	**2,873**	**3,073**	**3,055**	**2,955**	**3,035**	**3,050**	**3,075**	**3,085**	**3,130**	**3,145**	**3,160**
Oil Yield, lbs./ bu. of soybeans [2]	**11.4**	**11.7**	**11.3**	**11.5**	**11.4**	**11.3**	**11.4**	**11.5**	**11.4**	**11.3**	**11.4**	**11.5**
Biodiesel Usage:												
Soybean oil use for biodiesel, mil. Lbs.[2]	424	655	2,762	2,981	3,100	3,375	3,400	3,450	3,450	3,650	3,750	3,775
Use for biodiesel, bushel equivalent	37	56	244	268	273	298	300	301	303	323	329	328
Soybean oil for biodiesel, % of oil from crop	1.2%	1.8%	7.7%	9.7%	9.2%	9.9%	9.1%	9.0%	8.9%	10.8%	10.2%	9.9%
Soybean oil for biodiesel, % of oil from crush	2.2%	3.2%	13.5%	14.3%	16.2%	17.5%	17.5%	17.5%	17.5%	18.2%	18.5%	18.3%
Ending Soybean Carryover: (mil. bu.)	**256**	**449**	**574**	**205**	**218**	**188**	**459**	**506**	**527**	**329**	**552**	**612**
Carryover as percent of supply	7.9%	13.5%	15.7%	6.3%	6.9%	5.8%	13.1%	14.1%	14.6%	9.5%	14.9%	16.2%
Carryover, weeks of total use	4.5	8.1	9.7	3.5	3.8	3.2	7.8	8.6	8.9	5.5	9.1	10.1
U.S. weighted avg. farm price	$5.74	$5.66	$6.43	$10.10	$8.85	$9.40	$7.80	$7.50	$7.25	$8.95	$7.00	$6.90
Nov. Futures Price (harvest avg.)	$5.15	$5.70	$6.05	$9.45	$9.10	$8.90	$8.05	$7.75	$7.25	$9.55	$7.20	$6.70
Soy meal, Decatur, $/T 48% protein	$184	$175	$205	$336	$286	$290	$225	$210	$200	$260	$175	$172
Soy oil, Decatur, cents/lb.	23.0	23.8	31.0	52.0	33.0	38.0	35.0	34.0	34.0	39.5	36.0	34.5



New Crop Soybean Chart



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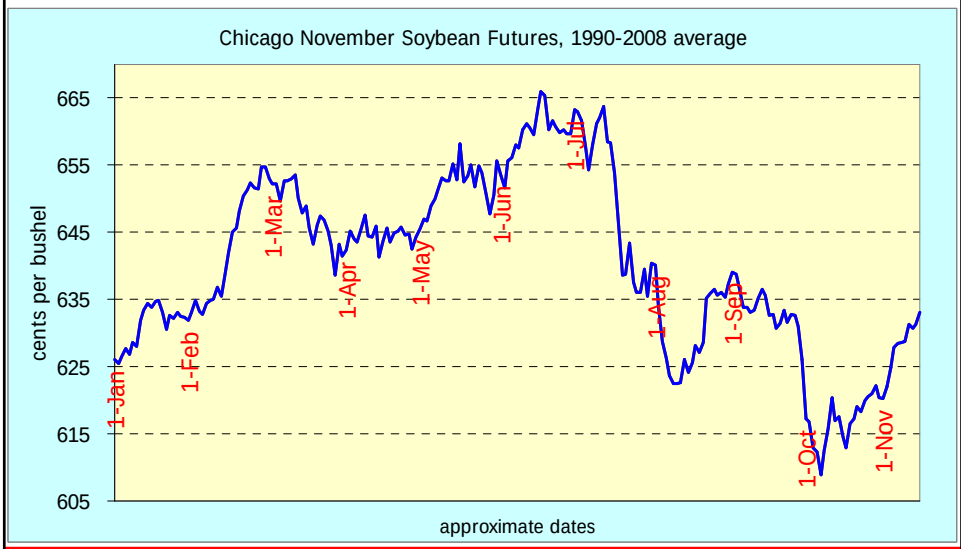
Source: Jim Wyckoff, Jan. 26th, 2009

New Crop Soybean Seasonal Trend



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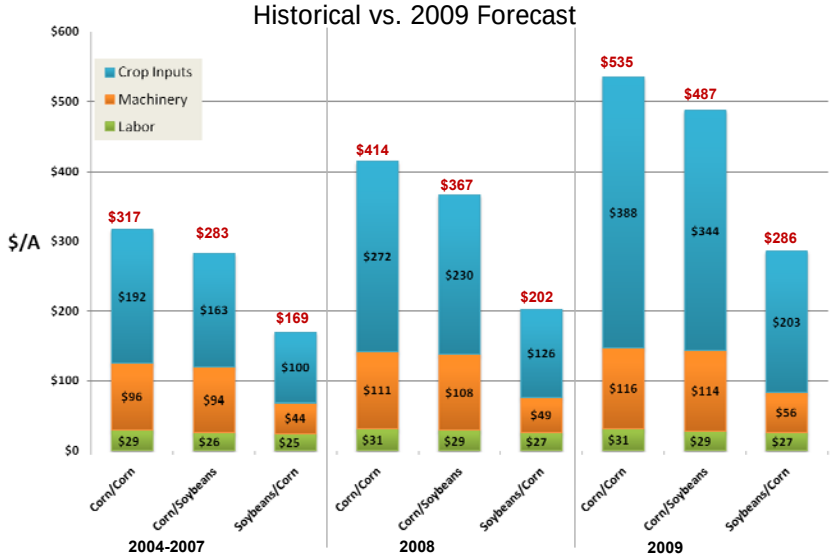
Source: CBOT, U of MN, CFFM, 2008

Crop Production Costs – (Non-Land in $/A)

Historical vs. 2009 Forecast



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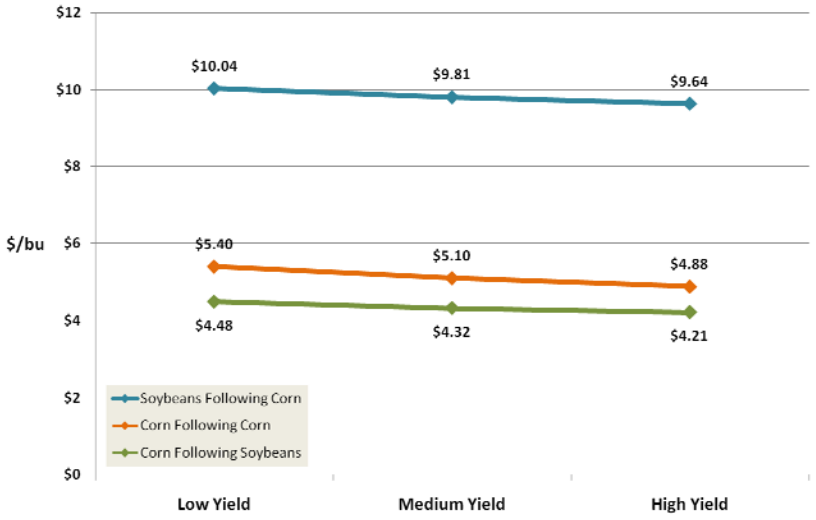
Source: ISU Ext. Economics, FM-1712, Dec. 2008

2009 Break Even Costs: Crop Rotation and Yield



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Source: ISU Ext. Economics, FM-1712, Dec. 2008

Yield Insurance Products

- Catastrophic (CAT)
- Multi-Peril Crop Insurance (MPCI) also called APH
- Group Risk Plan (GRP)
- Hail

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Source: www.rma.usda.gov

Revenue Insurance Products

- Revenue Assurance (RA) – Standard or Base Price (BP)
- * – Revenue Assurance (RA) – w/Harvest Price Option (HP)
- * – Crop Revenue Coverage (CRC)
- Group Risk Income Protection (GRIP) – Standard or Base Price (BP)
- * – Group Risk Income Protection (GRIP) – w/Harvest Price Option (HP)

* Recommended with Pre-Harvest Sales

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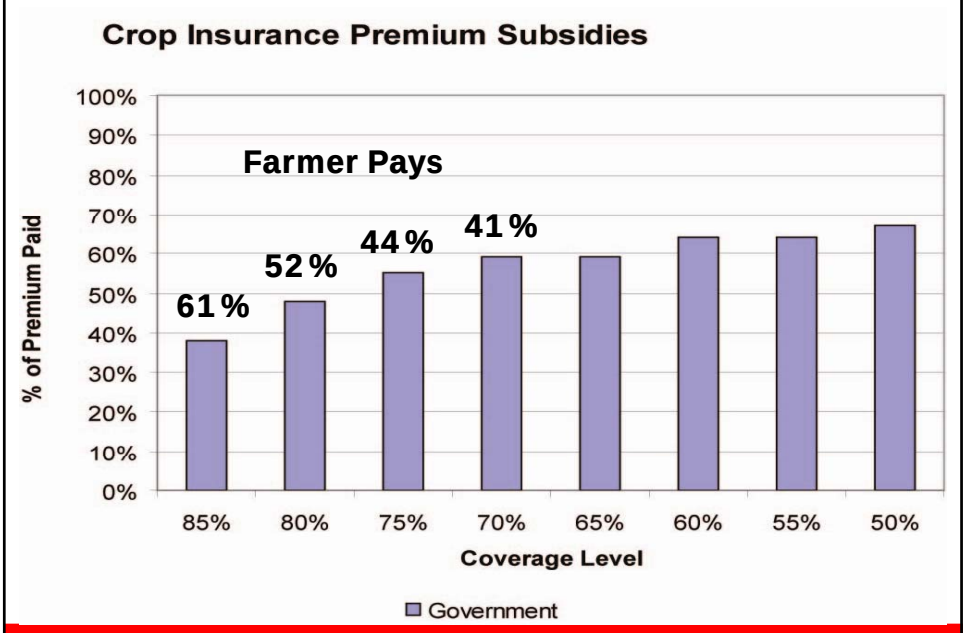
Source: www.rma.usda.gov



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Source: www.rma.usda.gov

2009 Spring Base Prices

- **MPCI/APH Price**
  - Corn **$4.00** /bu.
  - Soybeans **$9.90** /bu.

- **CRC, RA and GRIP Base Price**

  Use the February futures price averages for December Corn and November Soybeans
  - Corn ≈ **$____** /bu.*
  - Soybean ≈ **$____** /bu.*

** Base Price and Guaranteed Revenue will be determined in the month of February*

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Source: www.rma.usda.gov, Jan. 2009

2009 Corn Strategy using CRC or RA-HP

170 bu/A APH

X **75**% level of coverage

127½ /bu/A Guaranteed Yield

X **$ ____**/bu * Nov. Soy Futures in Feb.

$ ____/A * Guaranteed Revenue

**** Base Price and Guaranteed Revenue determined in the month of February***

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Source: Johnson, ISU Extension, Feb. 2009

Choosing Crop Insurance Products

Farm Financial Risk	Likely Product
1. Low Risk	GRIP-HR and Hail, APH/MPCI, CRC or RA
2. Below Average	GRIP-HR and Hail, CRC or RA
3. Average	CRC or RA-HP, medium level of coverage
4. Above Average	CRC or RA-HP, medium to high level of coverage
5. High Risk	CRC or RA-HP, high level of coverage

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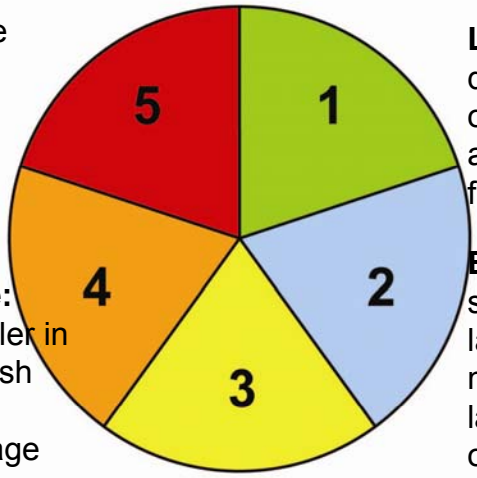
Source: Johnson, ISU Extension, Feb. 2009

Farm Financial Risk Categories

High Risk: large debt, all cash rented, variable ground, large livestock feeder, limited storage

Above Average: large debt, smaller in scale, mostly cash rented, variable ground, no storage



Low Risk: little debt, productive owned land, adequate on-farm storage

Below Average: some debt, larger in scale, mostly owned land, adequate on-farm storage

Average: some debt, larger in scale, mostly cash rented land, variable soils, limited storage

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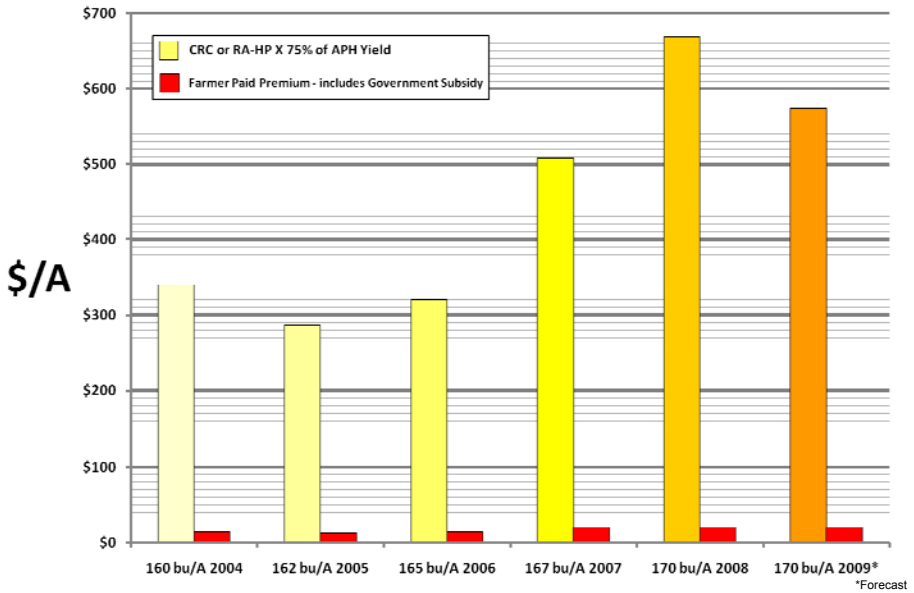
Source: Johnson, ISU Extension, Feb. 2009

Corn Revenue Guarantee vs. Insurance Premium



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*Spring Base Price determined in February

Source: Johnson, ISU Ext. Economics, Feb. 2009

2009 Crop Insurance Comparison Example

Low Yield, Decline in Fall Price ↓

Fall Price Decrease	MPCI/APH	CRC or RA-HP
APH	170 bu/A	170 bu/A
Coverage	75%	75%
Base Price	**$4.00** /bu	**$4.50** /bu *
Guarantee	127 ½ bu/A	**$574** /A *
Harvest Yield		
Harvest Price		
New Guarantee		
Indemnity		

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*Spring Base Price determined in February
Source: Johnson, ISU Ext. Economics, Feb. 2009

2009 Crop Insurance Comparison Example

Low Yield, Increase in Fall Price ↑

Fall Price Increase	MPCI/APH	CRC or RA-HP
APH	170 bu/A	170 bu/A
Coverage	75%	75%
Base Price	**$4.00**/bu	**$4.50**/bu *
Guarantee	127 ½ bu/A	**$574**/A *
Harvest Yield		
Harvest Price		
New Guarantee		
Indemnity		

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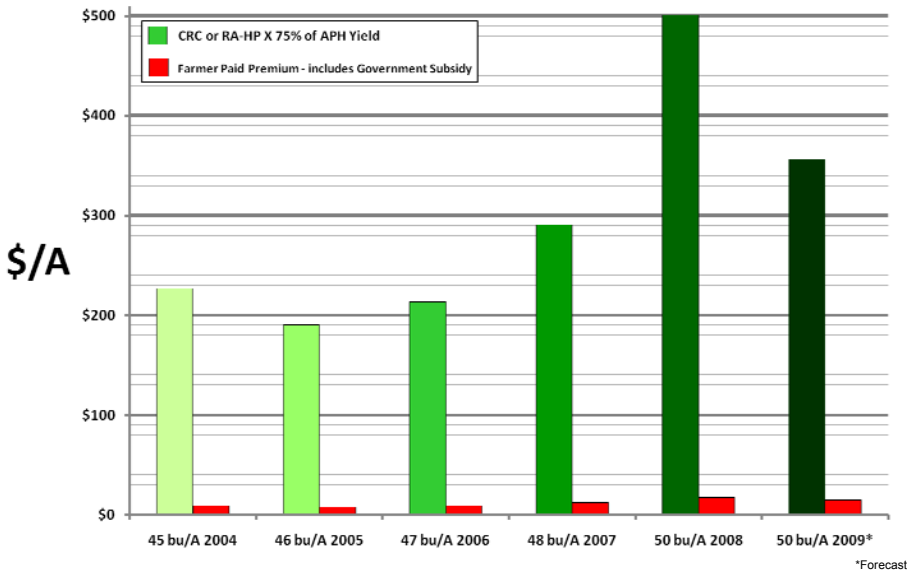
*Spring Base Price determined in February
Source: Johnson, ISU Ext. Economics, Feb. 2009

Soybean Revenue Guarantee vs. Insurance Premium



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*Spring Base Price determined in February
Source: Johnson, ISU Ext. Economics, Feb. 2009

2009 Crop Insurance Changes

- New 200% Cap on the Spring Base Price for CRC, RA-HP and GRIP; No downside limits
- Addition of new Supplemental Revenue (SURE) Disaster Program
- Higher Subsidies for Enterprise and Whole Farm Units, Lower Subsidies for GRIP and GRP
- Expanded Biotech Endorsement (BE): Additional Hybrids and States

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Source: Johnson, ISU Ext. Economics, Feb. 2009

SURE - SUpplemental REvenue Disaster Program

- Provides "supplemental" revenue coverage to existing crop insurance policies
- Insured must cover all crops, all farms, all counties
- Program offered annually 2009 through 2012, administered by the Farm Service Agency (FSA)
- Annually, land must be in a "disaster county" (U.S. Secretary of Ag designation)
  - or a contiguous county
  - or crop revenue loss on all crops on all farms must exceed 50%
- All qualified crops on all farms must be insured or purchase Non-Insured Assistance Program (NAP)

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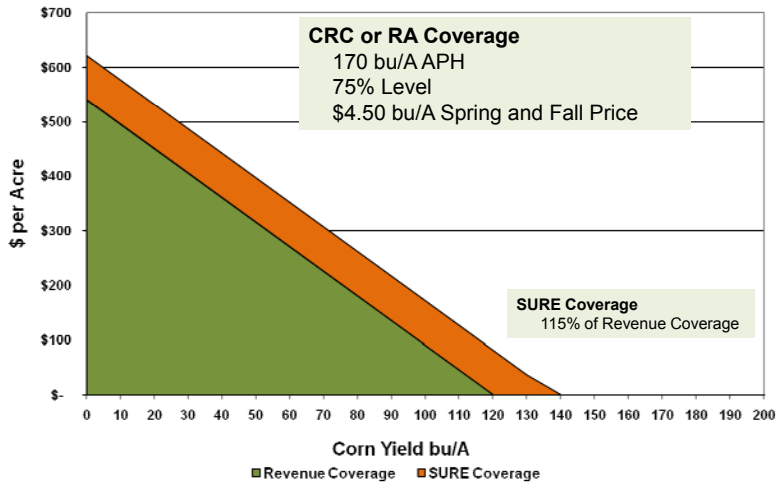
Source: ISU Ext. Economics, Feb. 2009

Crop Revenue Insurance Coverage (with SURE)



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Source: Johnson, ISU Extension, Feb. 2009

SURE Program Technical Corrections

- Clarifies how to measure 50% of production loss for crops harvested
- Adds a requirement of a 10% production loss or greater on at least one crop of economic significance
- Excludes subsequently planted crops (ghost crops)
- Allows the Secretary of Ag to adjust the average market price received to reflect regional variations
- Provides exception to crop insurance linkage:
  - Crops that are not of economic significance (5% or less do not have to be insured or NAP coverage)
- Allows for a waiver for 2009 crop year for 3 exceptions:
  - Socially disadvantaged, Limited resource or Beginning farmer
- Removes the Grazing Land linkage for SURE Program
- Clarifies Payment Limit rule changes

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Source: Iowa Farm Service Agency, Nov. 2008 and Jan. 2009

New Average Crop Revenue Election (ACRE) Program

- Gives producers a one-time option to choose a revenue-based counter-cyclical payment program, starting in 2009 through 2012 (irrevocable election)
- Producers choose between the current program (with the potential CCP) or ACRE
- Computed on planted acres, up to the total number of base acres on the farm
- Price guarantee is the 2-year National Marketing Year Average (MYA) Cash Price

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Source: ISU Extension Economics, Jan. 2009

ACRE Decisions

- Producers choosing ACRE agree to a 20% decline in direct payments and a 30% decline in loan rates
- Program has state and farm trigger levels, both must be met before payments are made
- Expected state and farm yields based on 5-year Olympic average yields per planted acre
- Revenue Guarantee = 2-year National MYA cash price X 5-year state Olympic average yield X 90%
- Actual Revenue = National MYA cash price X Actual state yield per planted acre (that year)

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Source: ISU Extension Economics, Jan. 2009

Direct & Counter Cyclical Program (DCP) vs. ACRE

Traditional DCP	ACRE
Direct Payments Certain	**80% of Direct Payments** Certain
Loan Payments at Full Loan Rates Little Chance of Collecting	**Loan Program at 70% of Loan Rate** Very Low *$1.36 ½ per bu. Corn *$3.50 per bu. Soybeans (*70% of National Loan Rates)
Counter-Cyclical Program (CCP) Little Chance of Collecting	**ACRE Program** **No CCP Payments** ACRE payments likely, 20%-30% of Years

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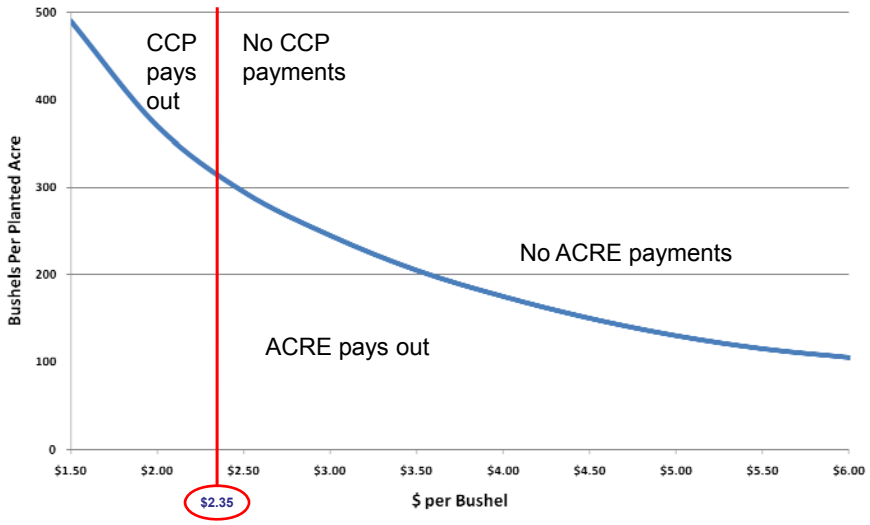
Source: Schnitkey, U of IL Ext. Economics, Jan. 2009

ACRE vs. CCP Payments



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Source: ISU Extension Economics, Jan. 2009

State Revenue Trigger

State Guarantee		State Revenue
5-year Olympic Avg. State Yield (Planted Acre) X 2-year National Market Year Average (MYA) Cash Price X 90%	Must Exceed	Actual State Yield (Planted Acre) X Actual National Market Year Average (MYA) Cash Price
Capped at +/- 10% from previous year		

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Source: Schnitkey, U of IL Ext. Economics, Jan. 2009

ACRE Set-up for Iowa Corn

Year	Yield per Planted Acre (bu./acre)
2004	176.7
2005	168.9
2006	162.7
2007	167.4
2008	164.6
Olympic Average	167.0

Year	Marketing Year Average Cash Price ($/bu.)
2007/08	4.20
2008/09	3.90
Average	$4.05

The 2008 yield and price are USDA's January 2009 estimates.

So the expected state yield would be 167.0 bushels per acre and the ACRE price guarantee would be $4.05 per bushel.

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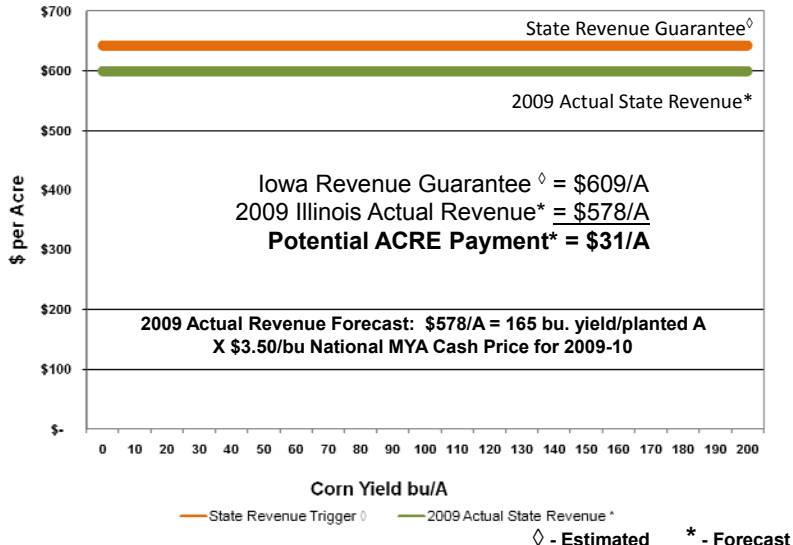
Source: Hart, ISU Ext. Economics, Jan. 2009

Potential ACRE Payment for Corn



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Source: ISU Extension Economics, Jan. 2009

Farm Revenue Trigger

Farm Guarantee		Farm Revenue
5-year Olympic Avg. Farm Yield *		Actual Farm Yield
x	Must Exceed	x
2-year National Market Year Average (MYA) Cash Price		Actual National Market Year Average (MYA) Cash Price
+		
Crop Insurance Premium (Farmer paid portion)		

*** Implies that farm-level yields will have to be provided to FSA at ACRE sign-up.**

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Source: Schnitkey, U of IL Ext. Economics, Jan. 2009

ACRE Set-up for Iowa Soybeans

Year	Yield per Planted Acre (bu./acre)
2004	48.8
2005	52.2
2006	50.3
2007	51.9
2008	45.6
Olympic Average	50.3

Year	Marketing Year Average Cash Price ($/bu.)
2007/08	10.10
2008/09	9.00
Average	$9.55

The 2008 yield and price are USDA's January 2009 estimates.

So the expected state yield would be 50.3 bushels per acre and the ACRE price guarantee would be $9.55 per bushel.

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Source: Hart, ISU Ext. Economics, Jan. 2009

Determining 2009 ACRE Payment (Considers Both Triggers are Met)

Lesser of	**State ACRE Revenue Guarantee**	**Minus**	**Actual State Revenue**
or	**State ACRE Revenue Guarantee**	**Times**	**25%**

ACRE Payments are issued after October 1st of the year following harvest.

Payment Limits: Traditional DCP; $40,000 for DPs and $65,000 for CCPs.
ACRE Payment Limits: $32,000 for DPs and $73,000 for ACRE Payments.
Both payment limits total $105,000 per Individual using Direct Attribution.

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Source: ISU Extension Economics, Jan. 2009

ACRE Revenue Guarantees Beyond 2009

- Revenue Guarantee is updated each year through 2012 using the same rules:
  - 5-year Olympic Average Yields (most recent years)
  - 2-years of National (MYA) Cash Prices
- Revenue Guarantees can not change by more than 10% (up or down) from year to year:
  - So for example the 2009 State Revenue Guarantee for Corn is **$609**, then the 2010 ACRE Revenue Guarantee must be between **$548** and **$670**.
  - For Soybeans, the State Revenue Guarantee is **$432**, then the 2010 ACRE Revenue Guarantee must be between **$389** and **$475**.

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Source: ISU Extension Economics, Jan. 2009

5 Strategies for Managing Crop Risks

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Source: Johnson, ISU Extension, Feb. 2009

5 Crop Risk Management Web Sites

- **Ag Decision Maker – ISU Extension Economics**
  (Spreadsheets - Decision Tools)
  www.extension.iastate.edu/agdm
- **Farm Doc – U of IL Extension Economics**
  www.farmdoc.uiuc.edu
- **USDA Risk Management Agency (RMA)**
  www.rma.usda.gov
- **USDA Farm Service Agency (FSA)**
  www.fsa.usda.gov
- **Crop Risk Management – ISU Polk County**
  Marketing, Farm Program & Crop Insurance:
  Updates/Newsletters/Webcasts
  www.extension.iastate.edu/polk/farmmanagement

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Source: Johnson, ISU Extension, Feb. 2009