

FARM CREDIT SERVICES OF MANDAN

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Overview-Livestock Risk Protection (LRP)

- Livestock Risk Protection (LRP) is an insurance product offered through RMA, the same organization that oversees the MPCCI program.
- LRP premium is subsidized by the federal government – they pay 13% of premium
- LRP is a product that is available to livestock producers to help minimize price risk.
- Producers can select coverage levels and periods of insurance to correspond with marketing plans.

Overview (cont.)

- LRP is available on Fed Cattle, Feeder Cattle, Swine and Lambs in 37 states
- Producers submit a one-time application for LRP Fed Cattle and LRP Feeder Cattle, Lamb & Swine.
- The time closest to the date cattle will be sold or reach the desired weight should be chosen.
- Insurance **can** be offered for 13, 17, 21, 26, 30, 34, 39, 43, 47 or 52 week periods.
- Producers may select coverage prices ranging from 70% to **100%** of the expected ending value

Overview (cont.)

- If at the contract end date the actual ending value is below the coverage price, the producer may be paid an indemnity for the difference between the coverage price and the actual ending value.
- It does not matter what you sell your cattle for, it matters only if the market moves

LRP Feeder Cattle

- Insurable feeder cattle classes:
 - Feeder steers, bulls and heifers less than 600 pounds.
 - Feeder steers and heifers from 600 to 900 pounds.
- After being accepted, SCEs may be purchased on 1 to 1000 head of feeder cattle. No more than 2000 head of feeder cattle may be insured per producer per crop year.

LRP Feeder Cattle (cont.)

- LRP Feeder Cattle ending value is the weighted average price of feeder cattle as calculated by the CME for the Cash-Settled Commodity Index Prices, and reported as the CME Feeder Cattle Reported Index, multiplied by the Price Adjustment Factor for the type of feeder cattle.
- The cash settled commodity index price is available at www.cme.com/trading/dta/hist/cash_settled_commodity_prices.html
- Actual ending values are posted on the RMA website http://www3.rma.usda.gov/apps/livestock_reports/

LRP Fed Cattle

- After being accepted, SCEs may be purchased on 1 to 2000 head of heifers and steers weighing between 1,000 and 1,400 pounds. The cattle are expected to grade select or higher with a yield grade of 1 to 3.
- No more than 4,000 head may be insured per producer per crop year.

LRP Fed Cattle

- Actual Ending Value for Fed Cattle is calculated by the Agricultural Marketing Service (AMS) in a report titled the “5 Area Weekly Weighted Average Direct Slaughter Cattle.” The price series is the Live Basis Sales, Steers, “35 - 65% Choice” category.
- The AMS report is available at http://www.ams.usda.gov/mnreports/lm_ct150.txt.
- One other option is LGM – Livestock Gross Margin – uses feeder cattle and corn futures to establish a margin, which becomes your level of insurance less deductables

LRP General Comments

- No notice of loss is required by the producer. The insurance company will send notice of potential loss to the producer.
- The premium for the insurance is due when the SCE is taken out. There will be no refunds of premium.
- Producers may take an offsetting futures or options position on the insured cattle.

LRP General Comments (cont.)

- Sales of LRP will be suspended if:
 - at least four of the CME Live Cattle (CME Feeder Cattle) futures contracts have a daily price change equal or exceeding the Daily Price Limit for two consecutive days.
- LRP sales will resume once:
 - there have been two consecutive days without four or more CME Live Cattle (CME Feeder Cattle) futures contracts equaling or exceeding the Daily Price Limit.

LRP General Comments (cont.)

- Coverage prices and rates change daily and must be referred to at the time of sale for each endorsement.
- All cattle to be insured must be located in a state approved for LRP insurance prior to insurance attaching.
- Producers must verify ownership of cattle. Can not purchase insurance on calves to be born.

LRP General Comments (cont.)

- Policy can be transferred to a cattle purchaser. Notice must be provided to the insurance agent prior to the transfer of ownership.
- Can only have one SCE at a time on any particular animal.
- Coverage can be purchased from the time prices and rates are published on the RMA website and ending on the following day at 9:00 a.m. Central Time, or as otherwise stated in the special provisions. Coverage will be available on Saturday mornings until 9:00 a.m. Central Time

LRP General Comments (cont.)

- Coverage under each SCE will:
 - Expire on the end date if the producer disposes of any share of the cattle during the last 30 days.
 - Be terminated on the date of disposal on any livestock disposed of prior to 30 days of the end date. Coverage will be reduced by the number of cattle sold. No indemnity will be paid for any portion of the terminated endorsement.
 - Expire on the end date if the livestock are seized, quarantined or destroyed by order of the government.

LRP EXAMPLE #1- BACKGROUNDING

- 100 STEERS TO BACKGROUND
 - (heifers tend to be about \$10/cwt less)
- 550 POUND STEERS WEANED ON OCTOBER 15, 2008
- ADD 2 POUNDS/DAY, SELL ON JANUARY 14 AT 730 POUNDS
- ONLY 2 13-WEEK OPTIONS WERE AVAILABLE

LRP EXAMPLE 1

GUARANTEED PRICE	COST	END DATE
\$92.01	\$3.36/CWT or \$24.53/head	January 14, 2009
\$90.01	\$2.71/CWT or \$19.78/head	January 14, 2009

EXPECTED ENDING VALUE WAS \$95.63, AND IT WAS ACTUALLY \$96.24, SO THERE WAS NO INDEMNITY PAYMENT MADE.

CASH LIVESTOCK PRICES 1-26- 09 – Faith, SD

- 5 weight steers - \$1.10
- 6 weight steers - \$1.00
- 7 weight steers - \$.95

LRP EXAMPLE #2- SPRING CALVES in 2008 – LAST YEAR

- 100 CALVES BY APRIL 1, 2008
- SELL 500 POUND STEERS ON OR AFTER AUGUST 26, 2008 – 21 WEEKS
- 13, 17, & 21 WEEK OPTIONS AVAILABLE
- PRICE WENT UP – NO INDEMNITY WAS PAID

LRP EXAMPLE 2

PRICE GUARANTEE/CWT	COST PER CWT	COST PER 500# STEER
\$112.20	\$3.84	\$19.20
\$110.00	\$3.13	\$15.65
\$105.60	\$1.83	\$ 9.15
\$103.40	\$1.48	\$ 7.40
\$101.20	\$1.18	\$ 5.90

LRP – What about today?

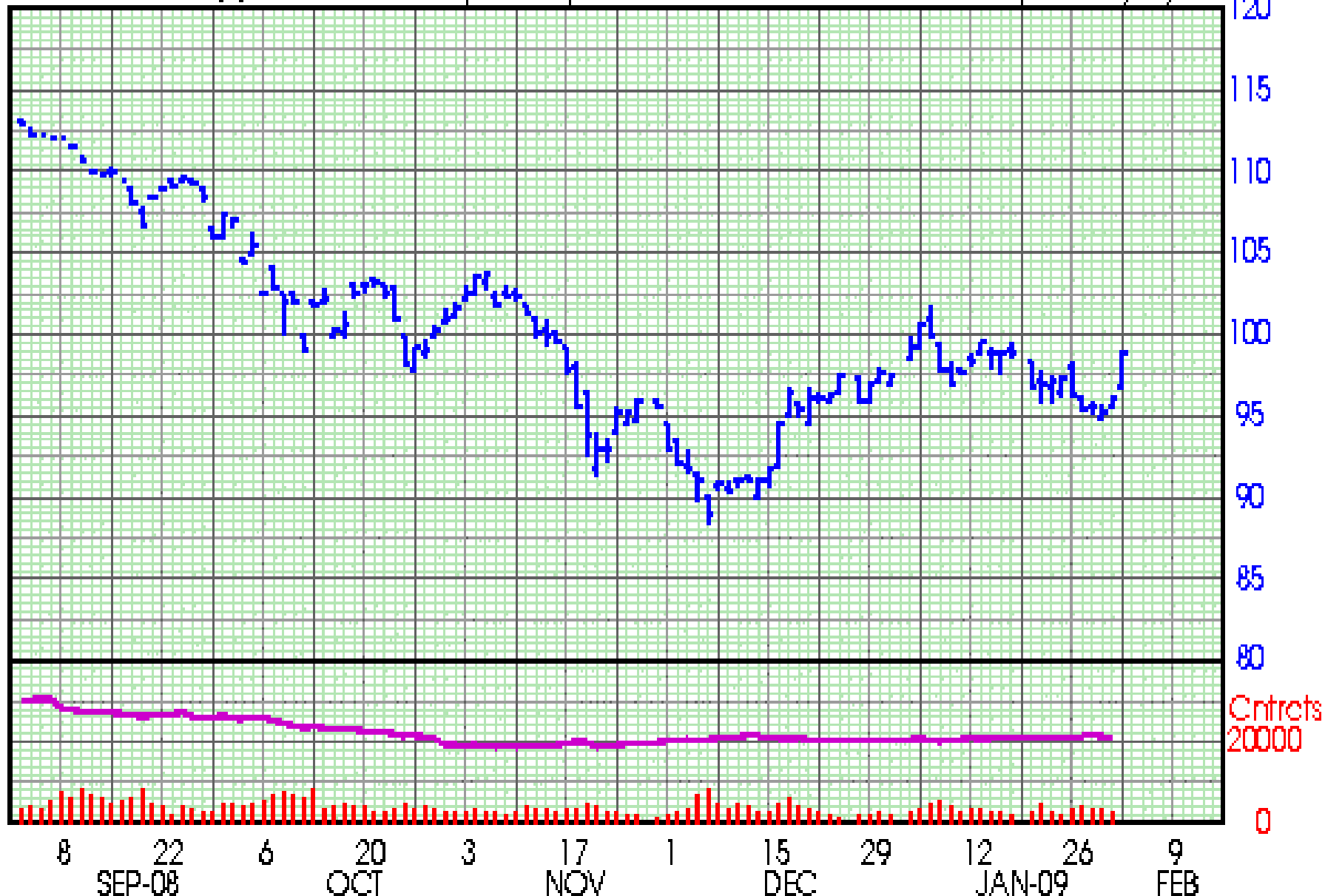
- As of 2/3/09
 - 17 Weeks – Steers – Lock in \$99.60, cost is \$2.27 (coverage to 6/1/09)
 - 17 Weeks – Steers – Lock in \$104.00, cost is \$3.62 (coverage to 6/1/09)
 - 21 Weeks – Steers – Lock in \$100.46, \$2.76
 - 21 Weeks – Heifers – Lock in \$91.33, \$2.51

LRP CONSIDERATIONS

- What is your breakeven?
- What is your tolerance for risk?
- What is your lender's tolerance for risk?
- Will rising feed prices reduce cattle prices?
- Is it important to lock in a floor price, even if that is below cost of production?

LRP Feeder Cattle Advantages

- Simple Risk management plan
- Cover any headcount
- No broker fees
- Policy is transferable to new owner. Cannot do this with options
- Can buy any hundred weight
- Available in months with no futures/options



Questions?

*See your **Farm Credit Services** insurance specialist for more information and quotes!*

Offices in

- *Mandan* 1-800-660-6487
- *Dickinson* 1-800-291-1207
- *Beulah* 1-800-510-5393
- *Wishek* 1-800-327-2474
- *Carson* 1-800-370-3297
- *Mott* 1-800-520-3203
- *Bowman* 1-800-581-5275
- *Washburn* 1-866-470-3514