RISK MANAGEMENT FOR NORTH DAKOTA FARMS

By Chris A. Johnson

Use of Multi-peril Crop Insurance ACRE & SURE Programs

Custom Cal

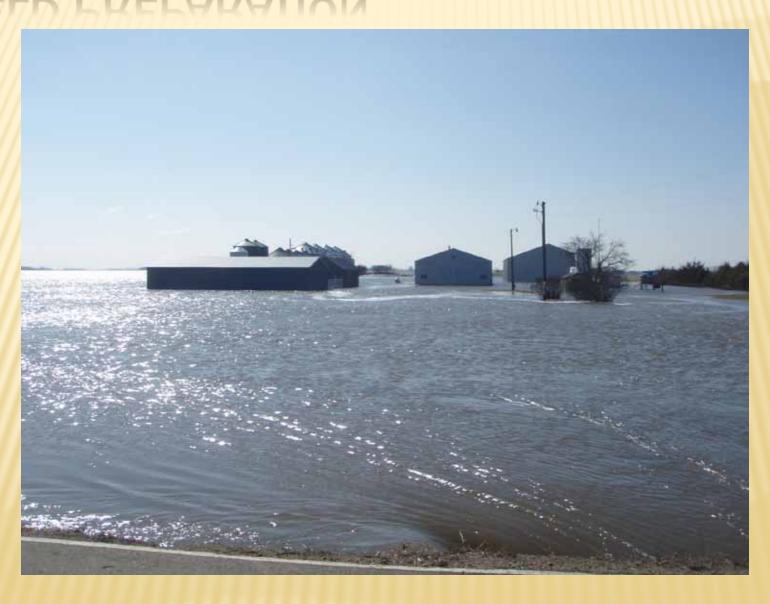
JOHNSON FARMS

Chris & Sue



WAHPETON·ND

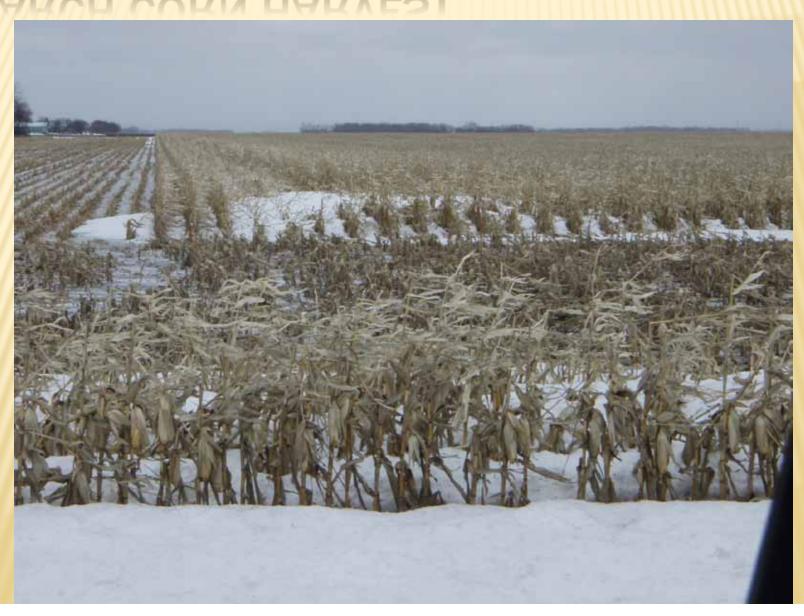
FIELD PREPARATION



TYPICAL INFRASTRUCTURE



MARCH CORN HARVEST



GATHERING THE BOUNTY





THINGS DON'T ALWAYS GO AS PLANNED....







C&S FARMS, INC

- × Started in 1973
- Consists of 3200 acres:
- Corn 600 acres
- Hard Red Spring Wheat 600 acres
- Soybeans 2000 acres

HOW DO WE MANAGE RISK

- Multiple Crops
- currently raise Corn, Soybeans & Wheat
- have raised Sugar beets, Oil & Confection Sunflowers, Dry Beans, Barley, Oats, Mini-pumpkins
- * Acreage spread over 35 miles, two counties, two states
- Raise value-added seed soybeans
- Sell commercial crops to nine different buyers
- Use of futures & options
- Limited use of Cash Forward Contracts
- Sign up for Government ACRE and SURE programs
- **x** Extensive use of Crop Insurance
- Multiple Lenders
- Machinery Overcapacity
- Raise Specialty Crops with Act of God Clauses only

EXTENSIVE USE OF CROP INSURANCE

- CRC or RA with harvest price option Multi-Peril
- × 75% or higher level
- Preventive Plant (PP) 60% Option
- Buy up of PP to 70% on lower acreage and nonraised crops
- Individual Unit Structure not enterprise units
- * Hail Insurance Comp II with 5% deductible @ \$100 an acre

WHY CROP INSURANCE?

- Our climate and location offers many ways to lose a crop
- Have lost yield to:
- Wet, dry, hail, freeze spring & fall, wind.. spring, summer & fall, fire and combinations of the above in the same year!
- Have lost quality to:
- Sprout damage, test weight, disease, low sugar content, mold, discoloration, low & high protein
- Since 1973 have only had two years without a claim
- Offers good value for relatively low premiums paid

YIELD VARIABILITY

```
Bohn Farm Wheat
1997
     51
     6*
1998
1999
     32
     53
2000
2001
     39
     45
2002
2003
     67
     72
2004
     11*
2005
     13*
2007
Ave 39
APH 44
*Yield adjusted
Spread top -bottom 66 bu
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YIELD VARIABILITY

```
Herring Farm Corn
1996
      125
1998 180
1999 166
2000
      147
      118
2002
2004
      162
2005
     206
2006
     131
      134
2007
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Ave

Spread Top-Bottom 88 bu

PREMIUM OPTIONS

- Corn Herring Farm
- × 155 bu APH rev
- * RA 75% w/ Harvest option \$42.78/acre 467
- * RA 75% w/HO Enterprise \$16.50/acre 461
- * RA 80% w/HO Enterprise \$28.42/acre 492

ACRE & SURE PROGRAMS

- Signed up for ACRE
- ...pros: gave up very little payments to collect a large one
- ...cons: gave up \$2/a in direct payments, lower loan rate thus lower LDP, state must have a loss
- **× SURE PROGRAM**
- Complicated program but eventually you will qualify and receive a payment

WHY FORWARD CONTRACTING ADDS RISK

- Delivery...Delivery...Delivery
- The concept of "Zero"
- Buyers want the physical product not money
- Making the Grade
- **×** Removes Flexibility
- * Financial Condition of Buyer
- The early bird MAY get the worm but the second mouse ALWAYS gets the cheese!

THE END!!!

