

RISK MANAGEMENT FOR NORTH DAKOTA FARMS

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Use of Multi-peril Crop Insurance
ACRE & SURE Programs

Custom Cab

**JOHNSON
FARMS**

Chris & Sue

WAHPETON • ND



FIELD PREPARATION



TYPICAL INFRASTRUCTURE



YOUR TAX DOLLARS AT WORK:



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 800 acres
 - Hard Red Spring Wheat 800 acres
 - Soybeans 1600 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 Sweet Corn
- × 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
- × Use scale-up selling
- × Sign up for Government ACRE and SURE programs
- × Extensive use of Crop Insurance
- × Multiple Lenders
- × Machinery Overcapacity..Plant in <7 days harvest in< 9 days
- × Raise Specialty Crops with Act of God Clauses only
- × Install Drain Tile Currently have 25% with a goal of 100%

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 non-raised crops
- ✘ Individual Unit Structure not enterprise units
- ✘ Hail Insurance Comp II with 5% deductible @ \$100 an acre
- ✘ Used ACH hail insurance in 2012 @ 115%

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 & the number of weather events we have in ND
- ✘ Yields are highly variable on my farm

YIELD VARIABILITY

Keith Farm Wheat

1990	59	
1991	46	
1992	66	
1996	52	
1999	46	
2001	43	
2003	62	
2005	10*	29
2007	3*	29
2008	51	

Ave 44

APH 49

*Yield adjusted to 60% of Personal T Yield

Spread top -bottom 63 bu

YIELD VARIABILITY

Herring Farm Corn		T/A
2000	147	177
2002	118	143
2004	162	182
2005	206	224
2006	131	146
2007	134	146
2008	180	190
2009	158	166
2010	164	169
2011	131	134
Ave	153	168

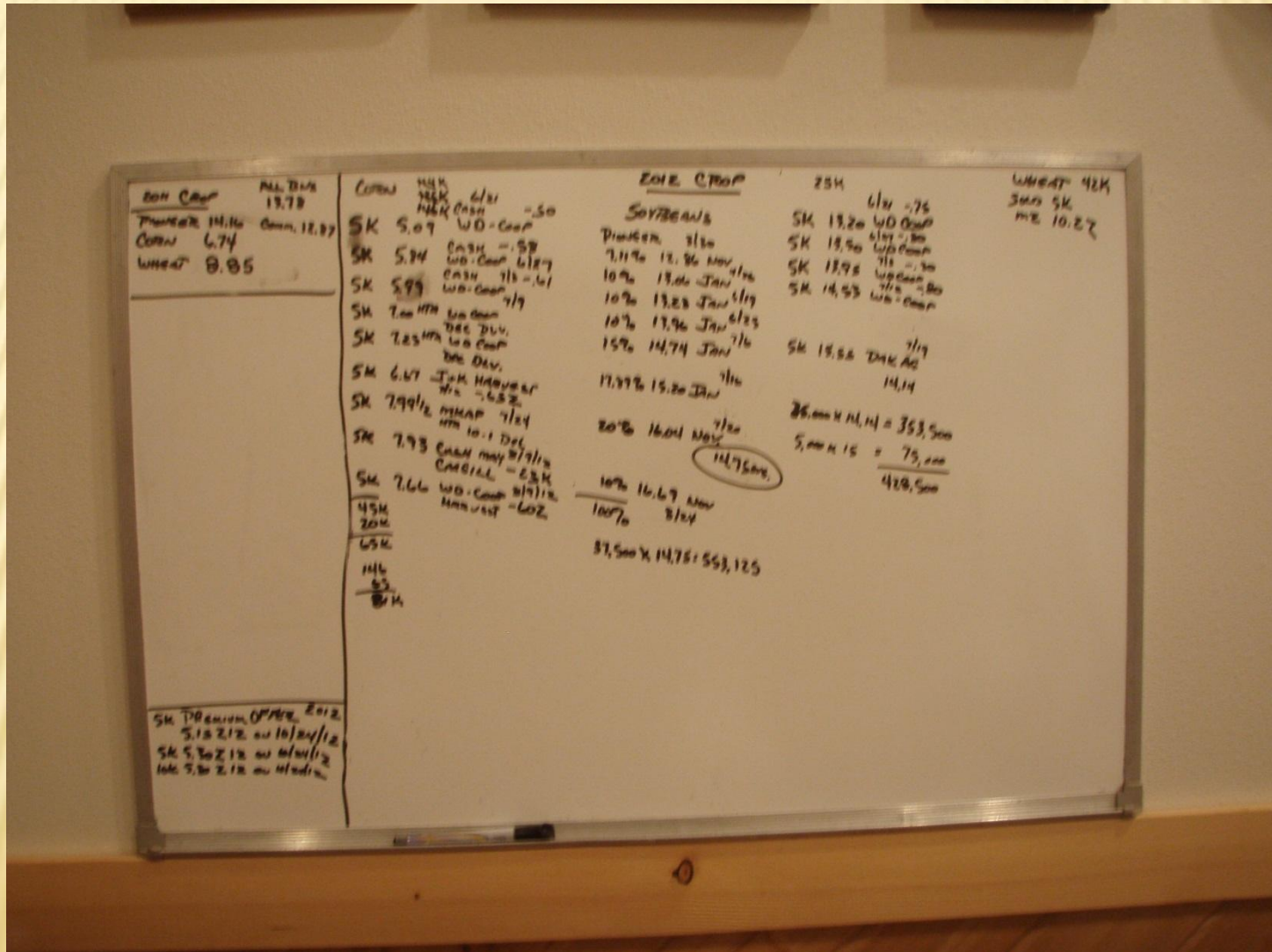
Spread Top-Bottom 90 bu

This is the most consistent field I have!!!

PREMIUM OPTIONS

- ✘ Corn Herring Farm 2012
- ✘ 168 bu APH rev
- ✘ RA 75% w/ Harvest option \$61/acre 716
- ✘ RA 75% w/HO Enterprise \$23/acre 716
- ✘ RA 80% w/HO Enterprise \$40/acre 763
- ✘ Comp II Hail \$100/a coverage for 8.80/a
- ✘ ACH 110% \$300/a coverage for 7.25/a

HIGH TECH MARKETING TOOL...



SCALE-UP MARKETING

- × 2012 Seed Soybeans
- × 3/30 7.11% @ 12.86
- × 4/16 10% @ 13.06
- × 6/19 10% @ 13.28
- × 6/25 10% @ 13.96
- × 7/6 15% @ 14.74
- × 7/16 17.89% @ 15.20
- × 7/20 20% @ 16.04
- × 8/24 10% @ 16.69
- × Average price on 37,500 bu was 14.75/bu
- × High was 17.20 on 9/4
- × Difference of 91,800 in revenue

MARKETING DO'S & DON'T'S

× Do:

- × Make smaller multiple sales
- × Make sales with different buyers
- × Use many dates
- × Use futures with stops or HTA's
- × Forward contract within your comfort zone
- × Use your bins wisely

× Don't:

- × Use marketing incentives by large grain co.
- × Use exotic option strategies
- × The doublebutterflymulti-fencestraddlecrossstexashedge
- × Sell poor quality, off grade at harvest

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!