



United States  
Department of  
Agriculture

Farmers  
Home  
Administration

Washington  
D.C.  
20250

FmHA AN No. 1548 (1941)

February 17, 1987

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SUBJECT: Payment of Crop Insurance Premiums

TO: All State Directors, State Directors-at-Large,  
District Directors, and County Supervisors, FmHA

PURPOSE

The purpose of this Administrative Notice (AN) is to clarify when crop insurance will be required in connection with insured operating type loans and when proceeds from the sale of normal income security may be released for the payment of crop insurance premiums. It is the intent of this AN to include multi-peril crop insurance, private hail insurance, and Federal Crop Insurance.

COMPARISON WITH PREVIOUS AN ON THIS SUBJECT

This AN replaces FmHA AN 1221 (1941) dated June 20, 1985.

IMPLEMENTATION RESPONSIBILITIES

FmHA Instruction 1941-B, Section 1941.88, outlines insurance requirements in connection with operating loans. Borrowers should be encouraged to carry insurance on chattel property, including growing crops which serve as security for a loan. All risk crop insurance is not a loan requirement. However, loan approval officials should strongly encourage borrowers to obtain and maintain crop insurance, if available, when it appears in the best interest of the borrower and FmHA.

FmHA Instruction 1945-D, Section 1945.169(o) (1) requires the borrower to obtain crop insurance, if available, when loan funds will be used for crop production expenses or if FmHA is not the primary lender for crop production expenses, but has or will have a security interest in the crops.

Insurance coverage on crops should be thoroughly discussed with all operating type borrowers during the loan making process and encouraged to insure when practical. In considering whether the security will be adequate, it is strongly recommended that consideration be given to requiring crop insurance as a loan condition on marginal loans, particularly in high risk areas.

At the time of purchase, insurance agents routinely advance credit for premiums for many farmers until the crop is harvested. Cash discounts may be available to farmers who prepay premiums. Funds for payment of insurance premiums may be included in the current year's operating loan in accordance with FmHA Instruction 1941.16(b). The borrower and County Supervisor should analyze both methods of payment and select the method which is most advantageous to the borrower and FmHA.

EXPIRATION DATE: September 30, 1987

FILING INSTRUCTIONS: Preceding  
FmHA Instruction 1941-A

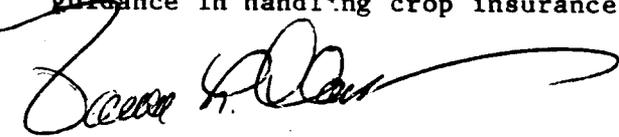


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Secretary of Agriculture, Washington, D.C. 20250

Situations may arise where the County Supervisor is not aware of a borrower's obligation for payment of crop insurance premiums during the loan making process. When the County Supervisor becomes aware of a borrower's obligation for crop insurance in connection with a current year's operating loan, the County Supervisor will take the following steps:

1. The cash-flow statement or current year Farm and Home Plan will be revised to show payment of crop insurance premiums from normal income security, provided this action does not adversely affect the repayment of the current year's operating loan.
2. Form FCI-20, "Assignment of Indemnity", or other acceptable assignment form, will be executed to show FmHA as the loss payee.
3. The borrower will be informed, that in the future, the type, amount, and benefits of insurance coverage must be discussed with the County Supervisor prior to loan approval. At that time, the County Supervisor will execute Form FCI-20, or other acceptable assignment form to assign loss payments to FmHA. When possible, FmHA should be listed as the loss payee on the policy before loan closing.
4. Borrowers who are insured above their needs will be counseled on reducing coverage as necessary. Loan funds or crop proceeds will not be used/released to pay premiums in excess of those considered necessary to provide adequate insurance coverage.

Crop proceeds may be released to pay crop insurance premiums and recorded in accordance with FmHA Instruction 1962-A, 1962.17(b). Additional guidance is provided in Exhibit A, Memorandum of Understanding Between Federal Crop Insurance Corporation and the Farmers Home Administration, attached to FmHA Instruction 2000-N. Also FmHA AN No. 1380(1962) dated March 26, 1986, "Subordination of FmHA Crop Liens to Guarantee Payment of Crop Insurance Premiums", which is filed preceding FmHA Instruction 1962-A, gives further guidance in handling crop insurance.



VANCE L. CLARK  
Administrator