



2014 Farm Bill Makes Changes to the Noninsured Crop Disaster Assistance Program

Introduction

The Noninsured Crop Disaster Assistance Program (NAP) was established in 1994 and administered by USDA's Farm Service Agency (FSA). NAP is a risk management tool for those producers growing crops not currently covered by a crop insurance product. The 2014 Farm Bill reauthorized NAP and made some dramatic changes to the program. NAP now offers coverage from the 50-percent level to the 65-percent level with producers able to buy-up coverage in 5-percent increments at up to 100 percent of the established market price. Prior to the 2014 Farm Bill, NAP had only allowed coverage at the 50-percent level and 55 percent of the established market price of the crop.

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For those crops that currently do not have a crop insurance product, NAP is an important risk management tool. In order to help Maryland producers understand the changes to NAP, this fact sheet will provide an overview of the changes to NAP and give a basic overview of how the new NAP program



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operates. If you have any question on the NAP program, please contact your local FSA office.

Who Is Eligible For NAP Coverage

Eligible Producer

NAP coverage is available (with a few minor exceptions) if crop insurance is not available for that crop in that county. To be eligible for NAP coverage a producer must be a landowner, tenant, or sharecropper and sharing in the risk of producing the eligible crop. For example, landlord cash rents cropland used to produce pumpkins on the farmland and tenant takes out NAP coverage. Landlord would be ineligible from participating in the NAP program even though landlord is the landowner. Cash rent does not give the landlord a risk in producing the eligible crop. In this example, if landlord switched to a crop-share lease then landlord would have a share in the risk of producing the crop because rent is tied to production and landlord is sharing in the cost of producing the crop.

Adjusted Gross Income Limitations

An eligible producer must have a three-year average adjusted gross income (AGI) under \$900,000 to qualify for NAP. The three-year average AGI is calculated by using the “AGI” reported on your federal income tax return for the three taxable years most immediately preceding the completed tax year. For examples, in 2015 you seek NAP coverage on your pumpkins. To calculate your three-year average AGI, you would look at your 2011, 2012, and 2013 tax returns because 2014 would be the most immediately preceding completed tax year. Unlike crop insurance, NAP payments are limited to \$125,000 per crop year per individual or entity.

Eligible Commodities

An eligible producer must commercially produce an eligible commodity. An eligible commodity is any of the following:

- Crops grown for food;
- Crops planted and grown for livestock consumption, such as grain and forage crops, including native forage;
- Crops grown for fiber, such as cotton and flax (except trees);
- Crops grown in a controlled environment, such as



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NAP coverage is available for almost all crops that crop insurance is not. To be eligible, a producer must be a landowner, tenant, or sharecropper and sharing in the risk of producing the eligible crop.

mushrooms and floriculture;

- Specialty crops, such as honey and maple sap;
- Sea oats and sea grass;
- Sweet sorghum and biomass sorghum;
- Industrial crops, including crops used in manufacturing or grown as a feedstock for renewable biofuel, renewable electricity, or bio-based products;
- Value loss crops, such as aquaculture, Christmas trees, ginseng, ornamental nursery, and turfgrass sod; and
- Seed crops where the propagation stock is produced for sale as seed stock for other eligible NAP crop production.

An eligible commodity must also not have crop insurance currently available in their county. If crop insurance is currently available then the producer would consider the available crop insurance product and not NAP coverage. Producers should contact a local crop insurance agent to determine if the crop currently has a crop insurance product available for purchase; to find a crop insurance agent see here: <http://www.rma.usda.gov/tools/agent.html>.

Coverage Levels

Catastrophic coverage (CAT) with NAP is based on the amount of loss that exceeds 50 percent of expected protection at 55 percent of the established market price for the eligible crop. The 2014 Farm Bill required FSA to develop additional coverage levels from the 50 to 65 percent of expected production, available in 5-percent increments, at up to 100 percent of average market price. You can elect additional coverage beyond CAT coverage for a premium in addition to the service fee (to be discussed in the next section) before the coverage closing date.

One important note on closing date: NAP, much like crop insurance will have a closing date when coverage must be purchased in order to be covered by NAP. These NAP closing dates will vary depending commodity and are set by the FSA State Committee. To determine the closing date for a commodity, check with your county FSA office.

Service Fee and Premiums

Producers considering NAP will have to pay a service fee for all coverage levels 50 to 65 percent. The NAP service fee is the lesser of \$250 per crop or \$750 per producer per administrative county. This fee is capped at \$1,875 for a producer with farming interests in multiple counties.

The 2014 Farm Bill requires a producer to pay a premium when the producer elects NAP coverage higher than CAT coverage. The premium will be equal to:

- The producer's share of the crop; times
- The number of eligible acres devoted to the crop; times
- The approved yield per acre; times
- The coverage level; times
- The average market price; times
- A 5.25-percent premium fee.

Note: The above fees are waived and the premium is reduced 50 percent (basic CAT level is free and buy-up net cost less than three cents per dollar of protection) for beginning (first 10 years) limited resource and traditionally underserved farmers (including women)



You can elect additional coverage beyond CAT coverage for a premium in addition to the service fee before the coverage closing date.



NAP, much like crop insurance, will have a closing date for coverage.

A simpler way to look at this would be:

$$5.25\% * \text{eligible acres} * \text{share} * \text{approved yield} * \text{coverage level} * \text{average market price} = \text{premium.}$$

This premium is capped at \$6,562.50 or 5.25% of the maximum payment limitation (\$125,000).

For example, Bill produces 20 acres of irrigated watermelons in Caroline County with an average production history of 300cwt per acre, an average

market price \$12.67/cwt, and Bill owns 100 percent of the crop. Bill is going to take NAP coverage at the 60-percent level. Bill's premium would be

$$5.25\% * 20 \text{ acres} * 100\% * 300\text{cwt/acre} * 60\% * \$12.67/\text{cwt.}$$

Bill's premium for NAP coverage at the 60-percent level would be approximately \$2,395.

The University of Illinois has developed a NAP premium calculator to provide you with an estimated NAP premium. The calculator is available at

<http://fsa.usapas.com/NAP.aspx>.

Some groups will be eligible for a waiver of the service fee and a 50-percent premium reduction. Beginning farmers, limited resource farmers, and socially disadvantaged farmers will be eligible for a waiver of the service fee and a 50-percent reduction in the NAP premium. To determine if you are eligible for this reduced premium and waiver of service fee, check with your county FSA office.

Coverage Period

The NAP coverage period will vary depending on the crop. For annual crops, the coverage period will start at the later of the following:

- 30 days after application for coverage and the applicable service fees have been paid, or
- The date the crop is planted (cannot exceed the final planting date).

The coverage period will end the earlier of the following:

- Date the crop harvest is completed,
- Normal harvest date for the crop,
- Date the crop is abandoned, or
- Date the entire crop acreage is destroyed.

For perennial crops, other than forage crops, the coverage period will begin 30 days after the application closing date and end on the earlier of the following:

- 10 months from the application closing date;
- The date the crop harvest is completed;
- The normal harvest date for the crop;
- The date the crop is abandoned; or
- The date the entire crop acreage is destroyed.

For more specific information on coverage periods for crops you are producing, please contact your local FSA.

Eligible Causes of Loss and Calculating NAP Payment

Not all losses will be covered under NAP. Eligible causes of loss will include the following:

- Damaging weather, such as drought, freeze, hail, excessive moisture, excessive wind or hurricanes;
- Adverse natural occurrences, such as earthquake or flood; and
- Conditions related to damaging weather or adverse natural occurrences, such as excessive heat, plant disease, volcanic smog (VOG) or insect infestation.

The natural disaster must occur during the coverage period, before, or during harvest. The natural disaster must directly affect the eligible crop.

When a natural disaster does occur during the coverage period, FSA will issue a NAP payment. FSA will use certain information in calculating including the following:

- Crop acreage;
- Approved yield;

- Net production;
- Coverage level elected by the producer;
- An average market price for the commodity established by the FSA state committee; and
- A payment factor reflecting the decreased cost incurred in the production cycle for a crop that is not harvested or prevented from being planted.

Notice of loss will need to be completed within 15 days of the earlier:

- A natural disaster occurrence;
- The final planting date if planting is prevented by a natural disaster;
- The date that damage to the crop or loss of production becomes apparent; or
- The normal harvest date.

Hand harvested crops and other perishable crops may require notice of loss within 72 hours. Check with your local FSA office to determine when notice of loss needs to be given.



The NAP payment will be calculated as guarantee yield minus actual yield times FSA market price. For example, Bill, our Caroline County watermelon farmer, has an approved yield of 300cwt/acre, but actually produces 153cwt/acre. The FSA market price for watermelons is \$12.67. Bill takes NAP coverage at the 60 percent level. Bill's guaranteed yield would be 180 or $300 * 60$ percent. Bill's NAP payment would be:

$(180 - 153) * \$12.67 = \$ 342.09/\text{acre}$ or **\$6841.80 for the entire 20 acres.**

Unlike crop insurance, NAP payments are limited to \$125,000 per crop year per individual or entity.

Conclusion

The changes to the NAP program have allowed it to mirror crop insurance and provide greater risk management coverage to producers. Producers interested in seeing how NAP coverage works should utilize the NAP tool developed by the University of Illinois and available at <http://fsa.usapas.com/NAP.aspx>. This tool provides an overview of estimated NAP premiums depending on coverage levels and estimated revenues covered. Remember if you have questions on NAP, check with your local FSA office. ■

References:

University of Illinois at Urbana-Champaign. NAP Buy Up Tool. Dept. of Agricultural and Consumer Economics Web Tool, Dec. 2014.

USDA-Farm Service Agency. The Noninsured Crop Disaster Assistance Program for 2015 and Subsequent Years. Washington D.C.: Farm Service Agency Fact Sheet, Dec 2014.

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Authored by:

Paul Goering
Extension Legal Specialist
Department of Agriculture and
Resource Economics
lgoering@umd.edu
Twitter: @AgLawPaul

Howard Leathers
Associate Professor
Department of Agriculture and
Resource Economics
howardl@umd.edu

University of Maryland
College of Agriculture
and Natural Resources
Department of Agricultural
and Resource Economics
Symons Hall, Room 2200
College Park, MD 20742
[arec.umd.edu/extension/
crop-insurance/](http://arec.umd.edu/extension/crop-insurance/)

(301) 405-1293

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