Overview of National Wool Programs

VA-NC Shepherd Symposium
January 9, 2004

Wool Price Recovery

- Return from world-wide historical lows
- Currency exchange rates improving
- Demand for wool ???
- Decrease in world-wide production
- Lack of "stockpile"

Price recovery is not equal across all wool types

Australian Eastern Market Indicator (EMI)

Source: The Woolmark Company, AWEX
Data to 24 December 2003

Australian EMI in User Currencies

Source: AWEX, The Woolmark Company, Financial Times
Data to 12 December 2003
Higher Prices – The Good News

Approximate currency exchange rates

<table>
<thead>
<tr>
<th>Month</th>
<th>Rate</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>August 2001</td>
<td>$0.50</td>
<td></td>
</tr>
<tr>
<td>January 2003</td>
<td>$0.58</td>
<td>+16%</td>
</tr>
<tr>
<td>July 17, 2003</td>
<td>$0.67</td>
<td>+13%</td>
</tr>
<tr>
<td>December 29, 2003</td>
<td>$0.744</td>
<td>+11%</td>
</tr>
</tbody>
</table>

(Since the low of ~48 cents US in the summer of 2001, the exchange rate has improved by 55%)

Australian Production is Moving

- Decline in sheep numbers
  - Wool prices, drought, lamb production
- Rapid move towards finer wool
  - Affordable in-field testing
  - Computer programs / consultants
  - Culling low $ generators
- Reduced supply of mid-micron wools

Wool Price Guess for 2004

- Prices will remain “Volatile”
- Lack of Mid-Micron Wools
- Decreased Production
  - Less wool, Finer wool (Australia)
  - Quality wool?
  - Lamb production?
- World-wide Demand and Economies

Marketing the US Wool Clip

- Both domestic and international markets are important for our industry
- Price reporting – what is “Medium” Wool?
- Description of wool - “TYPING”
  The AWEX ID system is going world-wide
  Note: The most important parameters for price determination are objectively measured and therefore reported in the AWEX System

Auction Prices Show What the Market Wants

Value determining characteristics 2000/01 - 19.6-24.5mm merino fleece wool

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micron</td>
<td>81%</td>
</tr>
<tr>
<td>Length</td>
<td>2%</td>
</tr>
<tr>
<td>Style</td>
<td>3%</td>
</tr>
<tr>
<td>Colour</td>
<td>4%</td>
</tr>
<tr>
<td>Other manufacturing</td>
<td>15%</td>
</tr>
<tr>
<td>Other characteristics</td>
<td>5%</td>
</tr>
</tbody>
</table>
Marketing Infrastructure
- Domestic infrastructure is fragmented
- The “C-Word”
  Consolidated, Centralized, Coordinated, Cooperative, Combining, Coalescing
- “Regional Centers” via attrition
- Future – think international marketing and realistically look at volume of US wool

Marketing US Wool - International
- Increased Competition
- Narrowing the price gap for US wool and other countries
- Nearly 60% of the 2003 US wool clip production will be exported in Raw, Scoured or Top form
  (includes production and carry over)

International Marketing Challenges
- Infrastructure
  “One stop shopping” for buyers?
- Local freight issues
  In-land freight is expensive
  Yield – shipping non-wool
  Pounds of wool per container
- Quality and Consistency are expected!

Military & Government Contracts
- In 2002 more than 10 million lbs (~25% of US wool clip) awarded or consumed by contracts
- Wool consumption has remained steady despite reductions in staff
- Uses both 100% wool and wool blends
- Through 2005 over $200 Million in contracts

Military & Government Contracts
- Not just fine wool is used
  Different wool for different products
- Blankets – home for some coarser wool
  Hard to tell how much US wool is used and what qualities (some recycled wool is used in relief blankets)
- “Civilian Uniforms” do use US wool, but it is not required

Military & Government Contracts
**WOOL QUALITY IS IMPORTANT**

We can’t just rest on the Berry Amendment for taking our wool. Lack of quality translates into increased defects, leading to higher cost items – US mills lose competitiveness to compete.

Wool garments can not afford to be the next $500 ash tray!
Military and Product Development

- New wool blends in the making with high tech fibers (example Wool/Nomex)
  - Battle Dress Uniforms — BDU’s (fatigues)
- Cold Weather Gear (undergarment layers)
- New fabric advances — modify the surface of the wool fiber so it can be used to create a more comfortable and effective chemical control suit

Product Development

- Takes time and money
- Military Wool/Nomex blend is already several years in the making
- New Treatments to make wool more consumer appealing and environmentally friendly are being developed and passed the initial testing phases in laboratory settings

Product Development

Many great ideas and uses
- Insulation
- Horticulture applications
- Filters for water treatment
- Value-added Ventures

- Do we want wool to be an inexpensive raw material in an industrial application?

Wool Quality Improvement

- Quality and Consistency are key words
- Contamination
  - Kemp and Hair
  - Colored Fiber
  - Polypropylene & VM
- Lack of quality control at shearing due to low prices for wool

Quality Improvement

- Classing and Skirting
  - Huge advances in the US since late 1980’s
  - International standards
  - Length & Strength, not just Fiber Diameter
- Packaging
  - Bales and Nylon
  - Labeling — what’s inside?
  - Efficiency for handling

New Technology - Testing

- Staple Length and Fiber Strength
- It’s here to stay
- Buyers would like to have this information

- Will it be used as a “WMD”? This is a big and very real concern
USDA Wool Marketing Loan

- Safety net for when prices are low
- Weekly price fluctuations based on international (Australian) prices
- Are you getting the posted Graded Repayment Rate for your wool?
  - Why not?
  - What are you doing about it?

USDA Wool Marketing Loan

- It is different than the old incentive program and emergency payments
- This presentation
  - Basic Overview for 2004 – 2007
  - Unshorn Pelts (slaughter lambs only)
  - "Thinking out of the Box" - Tomorrow

Wool Marketing Loan Overview

Ways to Participate in the program
1. Ungraded Loan at 40 cents
2. Ungraded Loan Deficiency Payment (LDP)
3. Graded Loan at variable loan rates
4. Graded Loan Deficiency Payment (LDP)

Loan rates are different for each region, this presentation uses Region 1 Loan Rates

Wool Marketing Loan Program Overview – LDP'S

- Forgo the option to take a loan on your wool
- Government will pay the difference between the loan rate and the announced repayment rate (posted wool prices) for the day of application
- There is NO LDP if the repayment rate is above the loan rate

Wool Marketing Loan Program Overview – LDP Examples

<table>
<thead>
<tr>
<th></th>
<th>Ungraded Loan Rate (Grease Prices)</th>
<th>Announced Repayment Rate</th>
<th>Amount of LDP (42 – 18)</th>
<th>Graded Loan Rate (26.0 – 28.9 micron)</th>
<th>Announced Repayment Rate</th>
<th>Amount of LDP ($1.52 - $1.30)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>42 cents/lb</td>
<td>18 cents/lb</td>
<td>24 cents/lb</td>
<td>$1.52/lb clean</td>
<td>$1.30/lb clean</td>
<td>$0.22/lb clean</td>
</tr>
</tbody>
</table>

Wool Marketing Loan Program Overview – Beneficial Interest

- Beneficial Interest is lost at delivery to pool, broker or broker's intermediary (shearer)
- If beneficial interest is lost immediately after shearing, you need to fill out a form CCC-709 BEFORE the wool is sheared and sold
- This covers you in case you forget to fill out the other forms before losing beneficial interest if you sell later too!
- See Notice LP-1891 for details
Wool Marketing Loan Program Overview - Paperwork

- Still have your wool for 2003?
  - CCC 633 WM—to take out a loan
  - CCC 633 LDP—after shearing, weigh the wool, store it, take the LDP when you want to, then sell the wool
  - Weight?—Notice LP-1891 used to determine maximum pounds (pay back extra $ if under)
- LDP must be applied for before you lose Beneficial Interest

Wool Marketing Loan Program Overview – Production Evidence

- Need some kind of statement or documentation verifying what you produced including quantity and a date
- Receipts with name, address, telephone number of buyer or marketing agency
- Wool that has been burned, buried or otherwise destroyed is not eligible for participation

Wool Marketing Loan Program Overview

- You must choose which option you want to participate in (Graded/Ungraded program and Loan/LDP) at sign up
- For 2003 and beyond, you can only take the rates available on the day you apply
- You have until January 31, 2004 to apply for wool harvested in Calendar year 2003

Wool Marketing Loan Program Overview – General Details

- Notices: 1878, 1891, 1894 & 1985 are available on the FSA Website:
  

Wool Marketing Loan Program Overview – Unshorn Pelts

- Details can be found in Notice LP 1907
  - Unshorn Slaughter Lambs only eligible
  - Only LDP’s, no Commodity Loans on pelts
  - Ungraded wool LPD rate will be used
  - Set amount of wool per lamb
    - 6.865 lbs of wool per slaughter lamb

Wool Marketing Loan Program Overview – Unshorn Pelts

- LDP rate for the day you lose beneficial interest in Unshorn Slaughter Lamb @ 6.865 lbs wool/lamb

Example:

6.865 lbs x LDP rate (24 cents) = $1.6476 per head eligible

If repayment rate on the ungraded wool is above loan rate, there will NOT be an unshorn lamb pell LDP
Wool Marketing Loan Program Overview – Unshorn Pelts

- Eligible Lambs
  - UNSHORN
  - For immediate slaughter only
    - Slaughter within 7-10 calendar days after loss of Beneficial Interest
  - Personal use is acceptable if pelt is:
    - Preserved
    - Maintained
    - Stored for future marketing or processing

- Loss of Beneficial Interest – the earlier of:
  - Invoicing of the unshorn lambs
  - Delivery of the unshorn lambs to the order buyer or butcher
  - Receipt of payment for the unshorn lamb
- "Acceptable Production Evidence" includes:
  - Receipts for feed, kill sheets from slaughter company, veterinary records, IRS inventory records, farm credit balances, private insurance documents

Wool Marketing Loan Program Overview – Unshorn Pelts

- FORMS
  - CCC – 709 PELT – Field direct
    - Must be submitted by the producer before delivery of or loss of beneficial interest in the unshorn lambs
  - CCC-633 PELT
    - for producers who maintain beneficial interest in the unshorn pelt

- More Details are available from the USDA at the program web-site:

- Be kind to your local staff!
  - This is a new program and they do not have much experience with the program or many details

Wool Marketing Loan Overview

This is a LOAN Program
Producers are using the wool they produce as collateral for a loan from the USDA

Loan rates are set at:
- 42 cents/lb Ungraded Wool
- $1.00/lb Graded Wool

Wool Marketing Loan Overview

"Graded Wool"

- Graded Wool = Core Tested Wool
  - Must have Average Fiber Diameter & Yield

- $1.00 is the average rate on a greasy basis
- However, loan rates and repayment rates are reported on a Clean Basis

  - Clean Price X Yield % = Greasy Price
Wool Marketing Loan Overview
“Graded Wool”

- 8 different rates for different quality wool
  based on micron categories
- Some wools are higher in value, therefore
  loan rates are adjusted for fiber diameter
- 2003 Loan Rates vary from $1.37 - 5.31

These are reported on a clean price basis!

Wool Marketing Loan Program Overview - Loans

- 9 month loan period (repay at any time)
- USDA interest rate (varies) + filing fees
- Take out a loan at the ungraded loan rate
  for your region per pound on your wool
- Repay loan at loan rate (42 cents) or at
  the announced repayment rate if lower
- Variable repayment rates for graded wool

Wool Marketing Loan Program Overview - Loans

- Repayment rates are announced weekly
- Calculated on a world price basis
  (Australian wool market prices)
- Adjusted for currency exchange rates
- Non-Recourse Loan
  - Instead of paying back loan you default on
    the loan and forfeit your wool production to
    the Government

Wool Marketing Loan Program Overview - Loans

- Deliver wool instead of payment at end of
  loan period (Defaulting)
- Defaulting on Loan has strings attached!
  - Wool is appraised for value if loan is defaulted on
  - Discounts applied to the wool if lacking quality
  - May end up owning Government refund
- You won’t be able to take advantage of
  the Government

Wool Marketing Loan Program Overview - Loans

- Various Discounts will be applied for:
  - Preparation (Skirted and Classed is expected)
  - Offsort Lines (Belly wool, Pieces, Locks/Tags)
  - Wool Types (Blackface and Black wool)
  - Staple Length (Under 3”)
  - Vegetable Matter (over 2% VM)
  - Damaged Wool - Non-merchantable
  - Polypropylene Contaminated

Details of discounts are can be found in
Notice LP-1908

42
Wool Marketing Loan Program Overview – Repayment Rates

- Announced weekly on Tuesday - 3:00 pm EST
- Go into effect on Wednesday 12:01 am
- Good for a one week period (Wed – Tues)
- Based on changes in world wool prices and currency exchange rates


<table>
<thead>
<tr>
<th>2003 Dates (Ungraded Rates)</th>
<th>Repayment Rate (cents)</th>
<th>LDP (cents)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan 1 – Jan 14</td>
<td>29</td>
<td>13</td>
</tr>
<tr>
<td>Jan 15 – Jan 28</td>
<td>31</td>
<td>11</td>
</tr>
<tr>
<td>Jan 29 – Feb 18</td>
<td>35</td>
<td>6</td>
</tr>
<tr>
<td>Feb 19 – Apr 8</td>
<td>38</td>
<td>4</td>
</tr>
<tr>
<td>Apr 9 – Apr 22</td>
<td>36</td>
<td>6</td>
</tr>
<tr>
<td>Apr 23 – May 8</td>
<td>21</td>
<td>21</td>
</tr>
<tr>
<td>Dec 24 – Dec 30</td>
<td>18</td>
<td>24</td>
</tr>
</tbody>
</table>

Wool Marketing Loan Program “Thinking out of the Box”

Look at using the loan for a value added venture or different marketing strategy
- Pool and collect wool as a group and take the higher clean program payment rate
- Use the USDA Loan to pay for costs:
  - Shipping
  - Scouring
- Pay off loan and sell scoured wool to the value added venture

Wool Marketing Loan Program “Thinking out of the Box”

Not getting the USDA announce repayment rate for your wool?

1. Why not?
2. What are you willing to do about it?
3. Can the program be used to help you get those better prices?
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- "Acceptable Production Evidence" includes:
  (but not limited to) receipts for feed, kill sheets from slaughter company, veterinary records, IRS inventory records, farm credit balances, private insurance documents

Wool Marketing Loan Program

- More Details are available from the USDA at the program web-site:


- Be kind to your local staff!
This is a new program and they do not have much experience with the program or many details
Overview

The Farm Security and Rural Investment Act of 2002 (the Act) provides 2002 through 2007 crop year marketing assistance loans and loan deficiency payments (LDP’s) for wool and mohair to eligible producers who produce and shear wool and mohair from live sheep and goats. The LDP program is also available to eligible producers of nongraded wool in the form of unshorn pelts for the 2002-2007 crop years.

The wool and mohair nonrecourse marketing assistance loan and LDP program provides eligible producers with two forms of Federal assistance. Eligible producers can either 1) request a nine-month marketing assistance loan or 2) agree to forgo the loan and request an LDP. The program helps stabilize America’s wool and mohair industry and ensures the well-being of agriculture in the United States. Nonrecourse marketing assistance loans are administered by the Farm Service Agency (FSA), on behalf of the Commodity Credit Corporation (CCC).

Wool and Mohair Nonrecourse Marketing Assistance Loans

Wool and mohair nonrecourse marketing assistance loans are nine month loans that provide eligible producers with interim financing on their production and facilitate the orderly distribution of loan-eligible crop throughout the year. Instead of selling the wool and mohair immediately after shearing, a nonrecourse loan allows a producer to store the production, pledging the crop itself as collateral. The loan helps an eligible producer pay bills when they come due without having to sell the wool or mohair at a time of year when prices tend to be lowest. When market conditions may be more favorable, a producer may sell the product and repay the loan with the proceeds of the sale. If the producer is unable to repay the loan, he or she can deliver to CCC the quantity of wool or mohair pledged as collateral as full payment for the loan at maturity.

Market loan repayment provisions specify that, under certain circumstances, producers may repay loans at less than principal plus accrued interest and other charges, with repayment of some portion of the relevant interest and principal being waived. Producers may also purchase commodity certificates and exchange the commodity certificate with outstanding loan collateral in repayment of marketing assistance loans.

Loan Deficiency Payment

LDP’s are payments made to producers who, although eligible to obtain a CCC loan, agree to forgo the loan in return for a payment on the eligible wool, mohair, or unshorn pelt.

Eligibility

To be eligible for a loan or LDP, a producer must:

- Meet the definition of an eligible producer;
- Comply with highly erodible land conservation and wetland conservation provisions;
- Produce and shear eligible wool and mohair or produce an unshorn pelt from a slaughtered lamb for unshorn pelts;
- Have beneficial interest in the commodity;
- Own, other than through a security interest mortgage or lien, the sheep and goats that produce the wool and mohair for a period of not less than 30 calendar days before shearing, or in the case of unshorn lambs, 30 days prior to slaughter of the lamb;
- For unshorn pelts only, sell the unshorn lamb for immediate slaughter or slaughter the unshorn lamb for personal use.

To be eligible for a nonrecourse marketing assistance loan or LDP, the wool and mohair must:

- Have been produced and sheared by the eligible producer;
- Be in existence and in storable condition;
Fact Sheet
Wool and Mohair Nonrecourse Marketing
Assistance Loan and Loan Deficiency Payment Program

- Be of merchantable quality suitable for loan;
- Be produced and shorn from live animals of domestic origin in the United States.

To be eligible for an unshorn pelt LDP, the unshorn pelt must:

- Have been produced by an eligible producer;
- Be produced from a live unshorn lamb of domestic origin in the United States at the time beneficial interest was lost.

Beneficial Interest

To be eligible for a loan or LDP, eligible producers must have beneficial interest in the applicable commodity. Beneficial interest must be retained by a producer from shearing or other specified term for special commodities continuously through:

- For LDP, the date LDP is requested;
- For loan, the earlier of the date the loan is repaid or CCC takes title to the commodity.

A producer is considered to have beneficial interest in a commodity if all of the following remain with the producer: 1) title to the commodity 2) risk of loss and 3) control of the commodity. When beneficial interest in the commodity is lost by the producer, the commodity remains ineligible for loan or LDP even if the producer regains beneficial interest.

Producers are required to provide acceptable production evidence, which indicates the date beneficial interest was lost with the LDP request.

Payment Limitation

Market gains and LDP's received by a producer for wool, mohair, and unshorn pelts are subject to one $75,000 payment limitation per crop year.

Final Loan Availability Date

The final loan availability date to request a marketing assistance loan or LDP for wool, mohair, and unshorn pelts is January 31 of the year following the year in which the commodity is sheared or the unshorn lamb is slaughtered.

Applicable Forms

When requesting a loan or LDP for wool and mohair or an LDP for unshorn pelts, producers must complete either a:

- CCC-633 WM for certified farm-stored loans;
- CCC-709 for field direct LDP’s;
- CCC-633-LDP for basic LDP’s;
- CCC-709-PELT, for field direct unshorn pelt LDP’s; and
- CCC-633-PELT, for basic unshorn pelt LDP’s.

Forms CCC-709 and CCC-633-LDP have been revised to accommodate wool and mohair LDP requests and must be completed according to instructions provided by CCC.

Forms CCC-709-PELT and CCC-633-PELT are new application forms to request LDP’s for unshorn pelts and must be completed according to instructions provided by CCC.

CCC-633-WM is a new loan request form and must be completed according to instructions provided by CCC.

Producers applying for a loan or LDP on wool must indicate, “graded” or “ungraded,” as the type of wool on the applicable loan and LDP forms.

Applications are available at local FSA offices and on the Internet at: http://forms.sc.egov.usda.gov/FormSearch.asp

Loan and LDP Rates

For graded wool, loans will be based on the statutory rate of $1.00, “grease basis,” (directly off the animal) but will be issued to producers as “clean basis,” using yield data from the core test report. Instead of obtaining a loan, producers may request LDP’s on graded wool; LDP’s are payable at the loan rate that would have been received for the lot of wool, less the announced repayment amount for wool of that quality that is applicable during the week. The graded wool loan rates are announced by regions according to eight specific micron ranges.

Ungraded wool offered as loan collateral will secure a nonrecourse loan made at a rate of 40 cents per pound. Instead of obtaining a loan, producers may request LDP’s on ungraded wool, with the LDP rate being the difference between 40 cents per pound and the announced repayment amount applicable during the week. Regional
differentials will also apply to nongraded wool.

Producers who desire a nonrecourse loan for mohair will receive the statutory rate of $4.20 per pound. There are no regional differentials for mohair.

At loan maturity, if producers wish to forfeit the loan collateral, the loan amount may be adjusted based on a schedule of premiums and discounts applicable to the crop year.

Unshorn pelt payments will be based on the LDP rate for nongraded wool for the week in which beneficial interest was lost in the applicable region where the unshorn pelts were produced and where the producer’s farm records are maintained. LDP’s for unshorn pelts will be based on a standard weight of 6.865 pounds per pelt.

The following are the national loan rates for the 2002 through 2007 crop year for wool and mohair (grease basis):

<table>
<thead>
<tr>
<th>Commodity</th>
<th>Loan Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Graded Wool</td>
<td>$1.00 per pound</td>
</tr>
<tr>
<td>Ungraded Wool</td>
<td>$0.40 per pound</td>
</tr>
<tr>
<td>Mohair</td>
<td>$4.20 per pound</td>
</tr>
</tbody>
</table>

Regional loan rates for wool and mohair will be announced at the beginning of each crop year.

All counties in the states listed in the following table shall use loan rates applicable to Region 1 for graded and nongraded wool. (See Chart 1)

States and applicable counties listed in the following table shall use loan rates applicable to Region 2 for graded and nongraded wool. (See Chart 2)

States and applicable counties listed in the following table shall use loan rates applicable to Region 3 for graded and nongraded wool. (See Chart 3)

Core Tests

To obtain a graded wool loan rate, the wool must be core tested by a CCC-approved testing facility to be measured through laboratory analysis for fiber diameter (micron) and yield. A core test refers to a lab test where the thickness of the fiber is measured. The average fiber diameter provided on the core test report will indicate the micron applicable to the tested wool. A list of CCC-approved testing facilities for graded wool can be obtained from any USDA Service Center.

Repayment Rates and Posted Prices

The regional posted prices that are used to calculate the CCC-determined value to determine the LDP rate and the marketing loan repayment rates for wool, mohair and unshorn pelts will be announced each Tuesday at 3:00 p.m., Eastern time by press release. County Offices will calculate the CCC-determined value to determine the alternative repayment and LDP rate. The posted prices will become effective Wednesday at 12:01 a.m., Eastern time.

Regional loan rates, posted prices, and LDP rates for the 2002 and 2003 crop years are available at, USDA Internet, FSA Intranet, and PSD’s Web site at:
www.fsa.usda.gov/dafp/psd

For More Information

Further information on this and other FSA programs is available from local USDA Service Centers or on the FSA Web site at:
www.fsa.usda.gov

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