



USDA Wool Marketing Loan Program Overview and Examples

ROBERT F. PADULA, PM RANCH
SHEEP & WOOL CONSULTANT

Programs

- ▶ Program is available through USDA – FSA (Farm Service Agency).
- ▶ This power point provides an overview of the programs and examples.
This is intended to be informational and growers are encouraged to contact their local FSA Office for official information and requirements.

For questions, to apply and for more information, please contact your local Farm Service Agency Office-

offices.sc.egov.usda.gov/locator/app?state=us&agency=fsa

Eligibility Requirements for Programs

To be eligible, producers must:

- ▶ have beneficial interest in the wool- *see next page*
- ▶ meet the definition of an eligible producer
- ▶ sheep must be grown and shorn in the U.S.
- ▶ have ownership of the sheep at least 30 days before shearing
- ▶ wool must be shorn and in storable condition

Other eligibility and documentation requirements may apply.

Beneficial Interest

- ▶ To be eligible for a Loan or LDP, eligible producers must have beneficial interest of the wool.
- ▶ Beneficial interest must be retained by a producer from shearing continuously through:
 - ▶ for a Loan- the earlier of either the date the loan is repaid or FAS/CCC takes title of the wool
 - ▶ for an LDP- the date the LDP is requested
- ▶ 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
 3. control of the commodity
- ▶ When beneficial interest in the commodity is lost by the producer, the commodity is ineligible for a Loan or LDP, even if the producer regains beneficial interest.

Wool Marketing Loan Program

5 Different Ways to Participate

5 Different Options Available to Consider for participation

1. Marketing Assistance Loan (MAL) – Graded Wool
 2. Marketing Assistance Loan (MAL)– Ungraded Wool
 3. Loan Deficiency Payment (LDP)– Graded Wool
 4. Loan Deficiency Payment (LDP)– Ungraded Wool
 5. Loan Deficiency Payment (LDP)- Pelts
- ▶ Growers choose option(s) most financially beneficial for their operation.
 - ▶ If grower takes an LDP, they forgo taking a Loan on that wool.
 - ▶ Can mix & match options to suit their needs.
 - ▶ Apply for MAL after wool is shorn. Loan is repaid at the time wool is sold.
- (Note – File with FSA Office before shearing, shear, then contact FSA to participate.)

Loan Rates and Repayment Rates

- ▶ Annual Loan Rates are set in the Farm Bill - calendar year basis.
- ▶ 8 different Loan Rates available for graded wool based on average fiber diameter.
- ▶ Graded Wool Loan, Repayment and LDP rates are reported on a “clean price” basis.
 - ▶ A core test, from an approved lab, is required to participate in Graded Wool Programs to determine the value and quantity of the wool. New Zealand Wool Testing Lab is approved to provide test reports.
- ▶ Ungraded Wool Loan, Repayment and LDP rates are reported on a “grease price” basis.
- ▶ Effective Repayment Rates are reported by the USDA based on international and domestic prices and are the lower of either the 30-day average or the weekly rate.

Wool Loan & Weekly Repayment Rates

May 26, 2020

Updated Weekly

CATEGORY	2020 LOAN RATE	EFFECTIVE REPAYMENT RATE 5/26/2020	LDP RATE
GRADED WOOL CLEAN PRICES in \$ per Pound			
<18.6 Micron	3.88	3.54	\$.34 LDP Available
18.6 - 19.5	3.38	3.24	\$.14 LDP Available
19.6 - 20.5	2.94	3.10	Not Available
20.6 - 22.0	2.72	3.22	Not Available
22.1 - 23.5	2.56	3.82	Not Available
23.6 - 25.9	2.33	2.79	Not Available
26.0 - 28.9	1.78	1.30	\$.48 LDP Available
> 29 Micron	1.38	0.88	\$.50 LDP Available
GREASE PRICES in \$ per Pound			
Ungraded Wool	40 cents	10 cents	\$.30 LDP Available
Unshorn PELT	6.865 lbs x Ungraded Wool LDP		\$2.0595 LDP Available

For current rates, visit sheepusa.org/issues-governmentprograms-woolldp

Marketing Assistance Loan (MAL) vs. Loan Deficiency Payment (LDP)

Marketing Assistance Loan (MAL) Loan from the Government

- ▶ Wool is used as collateral for **a loan.**
- ▶ Costs: Low FSA interest rate + filing fee
- ▶ **Repay Loan anytime (up to 9 months) at either Loan Rate or Effective Repayment Rate – which ever is lower!**
 - ▶ Loan available for up to 9 months (due to COVID, currently extended to 12 months for 2020 marketing year, for Loans requested before Sept. 30, 2020).
 - ▶ Requests for an MAL for the 2020 clip can be made up to January 31, 2021.
- ▶ Operating capital (\$\$\$ vs LDP).
- ▶ Cannot sell the wool until loan is repaid.

Loan Deficiency Payment (LDP)

- ▶ Difference between Loan Rate and Effective Repayment Rate.
- ▶ Only available when Repayment Rate is below Loan Rate (i.e.- low wool prices).
- ▶ **Think of an LDP as an “on the spot” price payment for low wool prices.**
- ▶ **Costs: no filing fee, no interest.**
- ▶ Need to file with FSA before you sell wool.
- ▶ Pick the day you want to take LDP, after forms are completed.
- ▶ Opportunity to sell wool when rates are most favorable, which change continually.

Wool Program Options

Graded vs Ungraded

Graded Wool

- ▶ Loan and Repayment Rates are paid on clean wool basis (grease wool lbs x yield).
- ▶ Different Loan Rates for different fiber diameter wool (8 categories).
- ▶ Requires core test information to verify the fiber diameter and yield of wool.

Core Test - determines Loan and Repayment Rate category.

(Value and Weight of Wool for the Loan)

Ungraded Wool

- ▶ Loan and Repayment Rates are paid on grease basis, pounds sheared off the sheep.
- ▶ Loan Rate is fixed rate of 40 cents per pound.
- ▶ Does not require core test.
- ▶ Can provide evidence of pounds of wool OR estimate production based on:
 - a) Breed of sheep
 - b) Number of sheep shorn
 - c) Sex of sheep

Wool Core Test Report Required for Graded Wool Programs

To participate in the Graded portions of the Wool Marketing Loan program (either a Wool Loan or an LDP) – **a core test report is mandatory.**

The only place currently accepted by the USDA for wool core test is:

**New Zealand Wool Testing Authority
(NZWTA)**

Detail on how to take and send samples can be found:

sheepusa.org/researcheducation-woolquality

In 2021, the new wool lab in Texas is planned to be operational.



Marketing Assistance Loans (MALs)

MAL Options – GRADED WOOL

Loan- Graded Wool

- ▶ Determine average fiber diameter (AFD - micron) from core test report.
- ▶ Determine amount of **clean wool** (listed on core test report).
- ▶ Take out a Loan for a specified term (ranges from 9-12 months), based on the AFD (micron) and amount of clean wool produced.
- ▶ *There will be filing and interest fees from FSA.*
- ▶ Use Loan for operating during specified term (ranges from 9-12 months), before selling wool.
- ▶ **Wool is collateral and cannot be sold while under loan.**

Graded Wool Examples

- ▶ Example – 500 hd of 22.5 micron fleece wool
 - ▶ 22.5 micron wool – 2,200 lbs of clean wool
 - ▶ Loan Rate \$2.56
 - ▶ Loan Rate \$2.56 x 2,200 lbs = \$5632.00 loan
- ▶ Example – 400 hd of 28.0 micron fleece wool
 - ▶ 28.0 micron wool - 1392 lbs of clean wool
 - ▶ Loan Rate \$1.78
 - ▶ Loan Rate \$1.78 x 1392 lbs = \$2,477.76 loan

MAL Options – UNGRADED WOOL

Loan- Ungraded Wool Loan

- ▶ *All wool* has a Loan Rate of 40 cents per pound, as it is shorn off the sheep.
- ▶ Core test not required.
- ▶ Can use actual weight or estimate production based on breed, sex and number of sheep.
- ▶ If estimating pounds and storing on-farm, production evidence may be required (inspection).
- ▶ WOOL CANNOT BE SOLD WHILE UNDER LOAN.

Ungraded Wool Examples

- ▶ 500 head of 22.5 Micron wool
 - 4,000 lbs of fleece wool
 - 375 lbs of belly wool
 - 125 lbs of locks/tags

4,500 lbs x \$0.40 = \$1,800.00 loan available
- ▶ 400 head of 28.0 Micron wool
 - 2,400 lbs of fleece wool
 - 300 lbs of belly wool
 - 100 lbs of locks/tags

2,800 lbs x \$0.40 = \$1,120.00 loan available

MAL Options – Mixing Graded & Ungraded

Loan- Mixing Graded + Ungraded

- ▶ You can mix and match Loans if you have core test information on some lines of your wool.
- ▶ Graded wool on fleece wool lines (core tested)
- ▶ Ungraded wool - small lines (belly & off-sorts) not always practical to core test – cost prohibitive
- ▶ Mixing = more total \$ available for the loan if you combine graded and ungraded loan options

Graded + Ungraded Examples

- ▶ 22.5 micron – 500 head western white face
22.5 micron wool – 2,200 lbs of clean wool
 $\$2.56 \times 2,200 \text{ lbs} = \$5,632.00$ graded wool loan
 $\$0.40 \times 500 \text{ lbs} = \200.00 ungraded loan (off-sorts)
Total Loan Available \$5,832.00 combined
- ▶ 28 micron – 400 head meat breed sheep
28 micron wool – 1,392 lbs of clean wool
 $\$1.78 \times 1,392 \text{ lbs} = \$2,477.76$ graded wool loan
 $\$0.40 \times 400 \text{ lbs} = \160.00 ungraded loan (off-sorts)
Total Loan Available \$2,637.76 combined

MAL Options – Mixing Graded & Ungraded

500 hd of 22.5 micron white face

Graded & Ungraded Combined

$\$2.56 \times 2,200 \text{ lbs} = \$5,632.00$ graded loan

$\$0.40 \times 500 \text{ lbs} = \200.00 ungraded loan

Total Loan Available \$5,832.00 combined

Ungraded only

$4,500 \text{ lbs} \times \$0.40 = \$1,800.00$ loan available

400 hd 28.0 meat breed sheep

Graded & Ungraded Combined

$\$1.78 \times 1,392 \text{ lbs} = \$2,477.76$ graded loan

$\$0.40 \times 400 \text{ lbs} = \160.00 ungraded loan

Total Loan Available \$2,637.76 combined

Ungraded only

$2,800 \text{ lbs} \times \$0.40 = \$1,120.00$ loan available

MAL Details

- ▶ Discuss with local FSA office to determine program specifics:
 - ▶ Interest rate charged
 - ▶ Filing fees
 - ▶ Storage requirements and production evidence
 - ▶ Exit strategy – how to pay off the loan and sell wool when prices rebound
 - ▶ If an inspection of the wool is required at any time, the producer assumes the costs

- ▶ NOTE: this is a non-recourse loan- you can default on the loan and use wool as settlement, however, discounts will apply.

MAL Exit Options SETTLEMENT

- ▶ MAL's not repaid by the loan maturity date, will be secured by FSA, sold, and producer paid a settlement amount which is the difference between loan value and price of wool sold.
- ▶ Wool will be held at the farm storage location, at no storage expense to FSA.
- ▶ County offices will try to sell wool within 60 days of the loan maturity date.
- ▶ The settlement value may include premiums and discounts.
- ▶ **See your local FSA Office for details.**
 - ▶ Wool and honey are not eligible for the loan forfeit process similar to other commodities.



Loan Deficiency Payments (LDPs)

Wool Loan Deficiency Payments (LDPs)

- ▶ Growers do NOT have to take out a loan for their wool.
- ▶ USDA reports Effective Repayment Rates weekly for both Graded and Ungraded programs based on current market reports-
<https://www.fsa.usda.gov/FSA/epasReports?area=home&subject=ecpa&opic=fta-wm>
- ▶ Effective Repayment Rates are calculated using the lower of either the 30-day average or the weekly rate, which helps buffer extreme weekly price volatility that can occur.
- ▶ When Repayment Rates are below Loan Rates, growers can select the Loan Deficiency Payment (LDP) option, where a payment is made based on the difference between the Loan Rate and current market prices (Effective Repayment Rate).
- ▶ Growers are encouraged to sign up at their local FSA office BEFORE shearing and apply for LDP before wool is sold.

LDP Options- UNGRADED Wool (5/26/2020)

Repayment Rates shown for week 5/26/2020

- ▶ Ungraded Wool Loan Rate \$0.40
- ▶ Announced Weekly Effective Repayment Rate \$ 0.10
- ▶ LDP Ungraded wool calculation $\$0.40 - \$0.10 = \$0.30$ per pound
- ▶ All wool shorn off the sheep is able to receive 30 cents per pound payment
- ▶ **Application for Wool LDP can be anytime between when the wool is shorn and not yet sold.**

500 hd western white face sheep @ 9 lbs/hd = 4,500 lbs total wool produced

4,500 lbs x \$0.30 = \$1,350.00 Ungraded Wool LDP payment

250 hd Meat Breed sheep @ 8 lbs = 2,000 lbs total wool produced

2,000 lbs x \$0.30 = \$600.00 Ungraded Wool LDP payment

LDP Options- GRADED Wool (5/26/2020)

< 18.6 Micron wool

Loan rate \$3.88 clean

Repayment Rate \$3.54 clean

Graded LDP (<18.6 μ) \$0.34 clean

Core test report determines if wool is below 18.6 micron and reports pounds of clean wool.

Example – *fleece wool* line from 300 head of yearling sheep – core test reports 18.4 micron and 1,150 lbs of clean wool:

1,150 lbs x \$0.34 clean = \$391.00 LDP

22.1 to 23.5 Micron

Loan rate \$2.56 clean

Repayment Rate \$3.82 clean

**Graded LDP is not available
because Repayment Rate is
ABOVE Loan Rate.**

Grower can participate in the **ungraded wool LDP** program for all pounds of wool produced at current ungraded LDP (\$0.30).

500 hd @ 9lbs = 4,500 lbs total

4,500 lbs x \$0.30 = \$1,350.00 LDP

> 29.0 Micron Wool

Loan rate \$1.38 clean

Repayment Rate \$0.88 clean

Graded LDP (>29.0 μ) \$0.50 clean

Core test report determines if wool is above 29.0 micron and reports pounds of clean wool.

Example – *fleece wool* from 250 head of meat breed sheep – core test reports AFD of 32.5 micron and 900 lbs of clean fleece wool would result in a payment of:

900 lbs x \$0.50 clean = \$450.00 LDP

LDP Options – Mixing Graded & Ungraded LDPs

Grower can select both to maximize LDP

500 hd of western white face
(22.5 micron)

Graded & Ungraded Combined

2,200 lbs @ NO LDP = \$0.00 graded LDP

500 lbs off-sorts @ \$0.30 = \$150.00 ungraded LDP

Total LDP Available \$ 150.00 combined

Ungraded only

4,500 lbs x \$0.30 = **\$1,350.00 Ungraded LDP**

250 head meat breed sheep
(32.5 micron)

Graded & Ungraded LDP Combined

Graded LDP – fleece wool (core tested)

950 lbs clean fleece x \$0.50 = \$482.50 (>29.0 μ LDP)

250 lbs off-sorts x \$0.30 = \$ 75.00 (ungraded LDP)

\$557.50 Total LDP Available

Ungraded only (250 hd @ 8 lbs/sheep)

2,000 lbs x \$0.30 = **\$600.00 ungraded wool LDP**

(Note – sometimes, combining Graded and Ungraded is an advantage, depending on LDP levels.)

LDP Details

- ▶ File paperwork with local FSA Office before you shear.
 - ▶ **A grower who wants to claim an LDP needs to have a form CCC-33 EZ on with their local FSA office before they sell their wool.**
- ▶ Choose the day you want to take LDP.
- ▶ Discuss with FSA office what evidence they will require and how they determine when “beneficial interest” is lost.
- ▶ Best to discuss these issues with FSA before, rather than after-the-fact.
- ▶ While similar to other commodity loan programs, details are often subjected to local interpretation and few people participate in wool programs, which can lead to frustration for both the grower and FSA office staff as they work on resolving issues.



Wool Pools & Cooperatives

Program Considerations for Wool Pools and Cooperatives

- ▶ Generally, only LDPs are available for wool pools; Loans are not permitted.
 - ▶ Most FSA offices consider delivery to pooling location as the day growers lose beneficial interest in the wool and use that as the final date to settle LDPs.
- ▶ Pooling of individual growers lots into larger combined lots for core testing is allowed. Pool delivery records of individual grower contribution to the larger lot(s) is considered acceptable production evidence.
 - ▶ Example – pooled/combined lot of “fine wool” has 55 bales of wool totaling 20,000 lbs of raw wool from 30 different growers. Individual grower contributions recorded at delivery allows producers to file for their portion of the larger combined and core tested lot.
- ▶ Pools & growers can mix/match Graded and Ungraded LDPs to maximize financial benefit for growers.

Program Considerations for Wool Pools and Cooperatives

- ▶ Wool Pools are advised to begin working with FSA office staff in advance of wool pool pick up or delivery date to determine what requirements are going to be necessary for growers to participate in the wool LDP program.
- ▶ Local FSA office staff and FSA committee members should be made aware of the potential for increased grower participation and begin to anticipate how they will handle questions and process wool LDPs for wool pool members.

LDPs on Pelts

Loan Deficiency Payment on Unshorn Pelts

- ▶ For unshorn slaughter lamb pelts
- ▶ Current pelt LDP rate = 6.865 x Ungraded Wool LDP
 - ▶ A set amount of 6.865 lbs/pelt
 - ▶ Example- on 5/26/2020

$$6.865 \times \$0.30 = \$2.0595 \text{ per pelt}$$

- ▶ If the Repayment Rate for Ungraded Wool is higher than the Loan Rate, there will not be an Unshorn Pelt LDP.
- ▶ Must meet eligibility and record requirements.

Unshorn Pelt LDP Requirements

▶ Eligibility requirements

- ▶ Have beneficial interest in the pelts
- ▶ Producer must meet the definition of an eligible producer
- ▶ Own the lambs for at least 30 days before slaughter
- ▶ Sell the unshorn lamb for immediate slaughter or slaughter the unshorn lamb for personal use
- ▶ Sheep must be of U.S. origin
- ▶ Pelt must be unshorn

▶ Must submit production evidence

- ▶ Receipts for feed
- ▶ Kill sheets from the packer or Slaughter Company
- ▶ Veterinary records
- ▶ IRS inventory records
- ▶ Farm credit balances
- ▶ Private insurance documents.