



Single Family Housing Subsidy Recapture (Direct Loans)

Payment assistance, also known as subsidy, is granted to eligible very low- and low-income homeowners who obtain a Single Family Housing Section 502 Direct Loan from USDA Rural Development. The borrower signs [RD Form 3550-12, Subsidy Repayment Agreement](#), at loan closing. The agreement outlines the subsidy repayment terms, the requirement to repay all or a portion of the subsidy received over the life of the loan (i.e., subsidy recapture), and how subsidy recapture is calculated. The security instrument (Deed of Trust or Mortgage) contains a provision making the subsidy a lien against the property. The lien will not be released until subsidy recapture is paid in full.

How is subsidy recapture calculated?

While subsidy recapture formulas have changed over the years, under the current formula, the maximum amount of subsidy recapture which must be repaid is the lesser of the total dollar amount of subsidy received or 50 percent of the property's value appreciation.

Value appreciation is based on the difference between: (1) the market value of the property at the time of loan pay off; and (2) amounts of prior liens, subordinate affordable housing products, the Rural Development loan being paid off, principal reduction paid at note rate, reasonable closing costs, certain capital improvements, and the borrower's original equity in the property when the mortgage loan was originally closed.

Other factors, such as the term of the loan, average interest rate, percentage of outstanding balance of open loans, and whether all loans subject to recapture are being paid off, are also considered in subsidy recapture.

In the event of default (foreclosure or deed in lieu of foreclosure), the amount of subsidy recapture due is the total amount of subsidy received over the life of the loan.

When is subsidy recapture repaid?

The borrower must pay subsidy recapture when they transfer title or cease to occupy the property. If a borrower pays off the principal and interest of their loan and continues to occupy the property, repayment of the subsidy recapture amount can be deferred until the borrower ceases to occupy the property or transfers title. The security instrument securing the subsidy recapture amount may be subordinated to permit refinancing if Rural Development's lien position will be adequately secured. If eligible for deferral, and to encourage early payment, a discount of 25 percent of the subsidy recapture is offered if it is paid at the time the principal and interest is paid.

How can borrowers find out the amount of subsidy recapture to be repaid?

Borrowers can obtain an estimated, verbal pay off amount, including subsidy recapture, by calling USDA Rural Development's Customer Service Center Interactive Voice Response system at (800) 414-1226. Choose the "payoff information" option. Be ready to provide the estimated market value of the property, and estimated closing costs that may be incurred as the result of selling or refinancing.

The reverse page contains a sample calculation formula of subsidy recapture.

Single Family Housing Subsidy Recapture (Direct Loans) cont.

Subsidy Recapture Example – Sale of Home

Part I. Calculating Value Appreciation		Amount
1	Current market value of property	\$200,000.00
2	(less) Original amounts of prior liens and subordinate affordable housing products	\$2,000.00
3	(less) Rural Development (RD) loans being paid off	\$150,000.00
4	(less) Equity recapture due from Farm Program (FP) loan	\$0.00
5	(less) Closing costs	\$5,500.00
6	(less) Principal reduction (note rate) on RD loan being paid off	\$1,200.00
7	(less) Principal Reduction Attributed to Subsidy (PRAS) on loan being paid off	\$0.00
8	(less) Original equity	\$0.00
9	(less) Capital improvement credit	\$0.00
10	Value appreciation (Line 1 minus the total of Lines 2–9) (If \$0 or less, enter \$0 and complete Part II; if more than \$0, complete Part III.)	\$41,300.00
Part II. Amount Due if There is No Value Appreciation		Amount
11	Rural Development loans being paid off (Line 3)	n/a
12	Equity recapture from FP loan to be collected	n/a
13	PRAS to be collected	n/a
14	Amount due (Lines 11 + 12 + 13) (If negative, stop here. If positive continue to Part III.)	n/a
Part III. Percentage of Total Debt Subject to Recapture to be Paid Off		Amount
15	Rural Development loans being paid off which are subject to recapture (Line 3)	\$150,000.00
16	Outstanding balance of all RD loans and the balance of prior non-RD liens and subordinate affordable housing products being paid off [In this example, at the time of payoff, the prior non-RD liens and subordinate affordable housing products were already paid in full.]	\$150,000.00
17	RD loans being paid off as a percentage of all mortgage loans (Line 15/Line 16)	100.00%
Part IV. Value Appreciation Subject to Recapture		Amount
18	Amount of value appreciation attributable to loans subject to recapture (Line 10; or if Part III was completed, Line 10 × Line 17)	\$41,300.00
19	Recapture percentage (the lesser of 50% or the percentage contained in the Subsidy Recapture Agreement) [For the purposes of this example, 50% is used.]	50.00%
20	Value appreciation reduced by recapture percentage (Line 18 × Line 19)	\$20,650.00
21	Percentage of original equity (from Subsidy Repayment Agreement)	0.00%
22	Value appreciation, reduced by recapture percentage, attributable to original equity (Line 20 × Line 21)	\$0.00
23	Value appreciation subject to recapture (Line 20 – Line 22)	\$20,650.00
Part V. Amount Due if There is Value Appreciation		Amount
24	Amount of payment subsidy received	\$30,000.00
25	Recapture amount (Line 7 + the lesser of Line 23 or Line 24)	\$20,650.00
26	Discounted recapture amount, if applicable (Line 25 × 75%)	n/a
27	Final payoff amount (Line 3 + Line 4 + Line 25 or Line 26 as appropriate)	\$170,650.00

NOTE: Because citations and other information may be subject to change, please always consult the program instructions. You will find additional forms, resources, and program information at www.rd.usda.gov.