Subsidy Repayment Fact Sheet

Subsidy granted by Rural Development to Section 502 Rural Housing borrowers on loans approved after October 1, 1979, is subject to recapture. This means that when a borrower’s home is sold, transferred, or is no longer occupied as the borrower’s residence, all or part of the interest credit or home ownership assistance subsidy granted on the loan must be repaid to the Government. The amount to be repaid will be determined on the basis of a formula that permits the borrower to retain a portion of the value appreciation available when the home is sold or the mortgage otherwise paid-off.

The purpose of granting a housing subsidy is to assist a borrower to obtain decent, safe and sanitary housing. Housing subsidy costs have risen dramatically in recent years. Through the use of subsidy repayment agreement, the borrower and the Government share this cost. The borrower’s contribution to subsidy cost will be from equity acquired through appreciation of the mortgage property. Therefore, the longer the borrower lives in and maintains the property, the greater portion of the subsidy the borrower may retain.

How Will It Work?

1. The Mortgages or Deeds of Trusts, signed by those receiving interest credit or home ownership assistance subsidy, contain a provision making the amount of subsidy a lien against the property.
2. When a house is sold, transferred, or no longer occupied as the borrower’s residence, the amount of subsidy to be repaid will be due and payable.
3. When a borrower pays off the loan, continues to live in the dwelling, the amount of subsidy to be repaid will be calculated. The borrower may elect to defer the repayment of the subsidy, however, until the property is sold or no longer used as the borrower’s residence. This protects borrowers from being forced to sell their home because of subsidy recapture.
4. A chart printed on the subsidy repayment agreement which is available from any USDA, Rural Development office will be used to calculate borrower and Rural Development shares of any value appreciation.