



United States Department of Agriculture, Rural Development, Vermont/New Hampshire

## MORTGAGE LOAN PAYOFFS FOR USDA RURAL DEVELOPMENT DIRECT HOUSING LOANS

### [Understand that most RD loans have a "Subsidy Recapture" feature. What is this?](#)

After a loan is closed, the subsidized portion of a borrower's monthly payment will accrue as a separate account. The Government pays this subsidy each month to help very low and low income households afford to own a home. This account is subject to being repaid or "recaptured" at the time a borrower sells or transfers the property to another owner, no longer occupy the property, or pays the loan in full. The maximum amount of recapture due will be the lesser of the amount of subsidy received or up to 50 percent of the Adjusted Value Appreciation in the property. The Value Appreciation is based on appraised value and/or sales price at time of sale, refinance, or when the principal and interest balances are paid in full. This value excludes any of the borrower's original equity or any value that resulted from eligible Capital Improvements that were made by the borrower. Borrowers who refinance their Rural Development loan and want to pay off the principal and interest balance, have the option to defer the final amount of Recapture due, or pay it off at closing. (See section below "Deferring Payment of Recapture Due").

### [Understanding your need for getting a payoff.](#)

There are different options provided by our Centralized Service Center (CSC) for payoffs. These are:

- The **Principal and Interest Payoff (P & I)** is based on the anticipated principal, interest and fee balance (if any fees have been added) for the requested date. This form of payoff is used when the borrower's account **is not subject to recapture** or if the borrower is only concerned with the principal and interest balances due on their loan(s). **As a note, all RD Section 504 repair loans are not subject to any recapture due.**
- The **Maximum Payoff** statement indicates the **Maximum** amount the borrower may be required to pay as of a requested date. It includes 100% of all Subsidy Recapture funds including Principal and Interest and any fees that are due. This statement advises borrowers to submit additional information to CSC so that Subsidy Recapture can be properly calculated for a Final Payoff statement.
- The **Estimated** payoff is an estimated figure only. The Agency offers an automated Voice Response Unit (VRU) by calling our toll-free number (1-800-414-1226). It provides an accurate P&I balance and an *estimated* Subsidy Recapture amount based on a hypothetical sales price or appraised value. Please follow the directions (below) for an "Estimated Payoff".
- The **Final Payoff** statement is based on the account balance on the requested payoff date, and the actual Subsidy Recapture Amount due is calculated based on the final documentation provided by the borrower/settlement agent. This statement indicates the actual amount the borrower will be required to pay at loan closing.

"USDA is an equal opportunity provider, employer and lender."

To file a complaint of discrimination write USDA, Office of Civil Rights, Programs, 300 7<sup>th</sup> Street SW, Room 400 (Stop 9430), Washington, DC 20024 or call (866)632-9992 (Voice), (202) 401-0216 (TDD/TTY Hearing Impaired Only) or (202)720-8046 (FAX)

## Getting the Estimated Payoff — (Recommended but not required).

**Please note: This is an Estimated Figure AND CANNOT BE USED TO PAYOFF AN ACCOUNT. It is calculated as of the date of your call. The Subsidy Recapture amount does not include any value deductions for Capital Improvements.**

**CALL:** 1-800-414-1226 (This is an automated Voice Response Unit (VRU)).

You will need the customer's loan number and the last 4 digits of their Social Security Number

**Choose:** 1 Touchtone - Then: 1 English Speaking - Then: 2 Payoff Information

**Then:** You will be asked to input the customer's loan number and the last four digits of their Social Security Number. Stay on the line and listen to the entire explanation of the different types of payoff figures.

**Then:** Go to Calculated Payoff, "Estimated Loan Balance" – Choice Number 2. You will be asked to input the Estimated Market Value and the Estimated Closing Costs in whole dollars.

## Getting a Final Payoff—applies to all transactions (ex. sale, refinance, pay in full)

1. A copy of the Residential Appraisal Report *and/or* a copy of the Signed Contract.
2. A copy of the Estimated Settlement Statement. A Good Faith Estimate from the lending institution is acceptable.
3. The Date of the Payoff. Funds are to be received at Rural Development on this date.
4. The reason for paying off the loan: selling, refinancing, pay in full, and paying the recapture, or refinancing and deferring the Recapture (Subordination).
5. **Capital Improvements** that the borrower has made to the property can help to reduce the amount of subsidy that is subject to recapture. If a borrower has made any improvements to the property, he/she **should request that the appraiser provide an addendum to the appraisal** to indicate the value of the improvements. Capital Improvements are additions that add value to the property **above and beyond** repairs that maintain the property. General maintenance to keep the property in good condition is not considered a Capital Improvement. Examples of Capital Improvements that do not qualify: yard maintenance, painting, wallpapering, floor coverings, roofing, siding, wells, septic systems, appliances, furnaces or water heaters. The value of a Capital Improvement must be determined by an appraiser, based on the increase in the property's value because of the improvement. The cost of making the Capital Improvement is not considered when making this assessment, only the value that the Capital Improvements have added to the property. A copy of the original appraisal can be requested by the borrower(s) to assist the appraiser in Capital Improvement Determinations.
6. Borrowers who **refinance or wish to pay off their loan(s) and subsidy recapture in full** and remain in the property will receive a 25 percent discount on the recapture amount if it is included in the final payment. Please be aware that the 25 percent discount only applies if the borrower refinances the loan, or pays the loan in full and continues to occupy and retain title to the property.

7. Borrower(s) can defer recapture and pay it off later. A mortgage discharge is not provided, however, the Agency can subordinate its lien to another lender for the new loan (see below).
8. For unpaid or deferred subsidy, the borrower will establish a "Subsidy Receivable" account with the Agency which will not be due and payable until the borrower transfers title or vacates the property. The borrower cannot obtain the 25 percent discount if they voluntarily decide to pay off the balance at a later date. The "Subsidy Receivable" account will not accrue any interest or fees.

### Deferring Payment of Recapture due.

When a borrower initially refinances their RD loan(s), they have the option to defer their Recapture payment, or pay it in full. As mentioned above and under current rules, if it is paid in full they will receive a 25% discount in the amount of recapture owed. A Loan Subordination of the RD debt to allow another lender to make a loan can be requested by a borrower who wishes to refinance their Rural Development loan and payoff the principal, interest, and fees (if any) and defer the Subsidy Recapture Amount. The borrower can receive no "cash out" or consolidate additional debt (including other liens against the property). Modest real estate improvements may be considered as long as the Loan to Value for the new loan and the Recapture Receivable Amount are at or below 100% of the Current "as improved" Market Value of the property. Requests can include reasonable closing costs.

A Subordination Package for refinancing and/or making improvements to the property must be completed and returned to the Agency for review. The following must also be included:

- If Improvements are being done, a Contractor's Bid must be provided to the agency for review prior to approval.
- A signed, dated authorization from the borrower(s) waiving the 25 Percent Recapture Discount in lieu of a Subordination must be provided to Rural Development. This form is included in the Subordination Package.
- A copy of a recent Uniform Residential Appraisal Report (Pages 1 and 2).
- A copy of the Estimated Settlement Statement from either a lender or a closing agency. A Good Faith Estimate is acceptable if it includes the proposed loan amount.

If this account is a previously established Recapture Receivable Account, we will also need a Principal and Interest payoff on the first mortgage.

After the Subordination has been approved and prior to the issuance of the Subordination, the proposed lienholder must complete Form RD 1927-8, **Agreement with Prior Lienholder**, which requires the proposed lienholder to provide at least 30 written days notice to Rural Development, before any foreclosure actions on the proposed lien are initiated. This form is also included in the Subordination Package.

**TO COMPLETE A FINAL PAYOFF FOR THE USDA/RURAL DEVELOPMENT**

Date: \_\_\_\_\_

Company: \_\_\_\_\_

Fax Number \_\_\_\_\_

Attention: \_\_\_\_\_

Your payoff request for borrower(s): \_\_\_\_\_

Account Number(s) \_\_\_\_\_ Phone Number: \_\_\_\_\_

**FOR SALES, PLEASE FAX THE FOLLOWING DOCUMENTS: THE ACCOUNT NUMBER MUST BE WRITTEN ON EACH PAGE:**

- Sales Contract that includes the sales price (establishing market value) **and signatures of both buyer and seller** AND/OR Pages 1 and 2 of the Uniform Residential Appraisal Report (with 1<sup>st</sup> page as property description, 2<sup>nd</sup> page to include comparison approach, the estimated market value and the appraiser's signature. The appraisal must be less than one year old).
- Estimated Settlement Statement detailing our borrower's (the sellers) closing costs. THIS MUST BE COMPLETED BY THE SETTLEMENT/ESCROW AGENT. AN ESTIMATE FROM A REAL ESTATE AGENT IS NOT ACCEPTABLE.
- Authorization to release information signed by the borrower(s). If the request is from a lender or its agent, Social Security Number(s) and Account Number(s) are acceptable.
- Effective date of payoff requested.

**When the above documentation is received together as a package, a Final Payoff will be calculated. If you are notified by the Centralized Servicing Center (CSC) that additional information is needed to calculate the payoff, please fax the entire package together again. Also, please be sure that the account number is written on every piece of paper. This will expedite your payoff request.**

**To complete a Final Payoff Statement: PLEASE FAX ALL REQUIRED DOCUMENTATION TOGETHER AS A PACKAGE TO: 314-457-4433.**

**For Questions, you may call the Customer Service Department Toll Free at 1-800-414-1226 or TDD (hearing impaired only 1-800-438-1832) 7:00 a.m. to 5:00 p.m. Monday – Friday, Central Time.**

"USDA is an equal opportunity provider, employer and lender."

To file a complaint of discrimination write USDA, Office of Civil Rights, Programs, 300 7<sup>th</sup> Street SW, Room 400 (Stop 9430), Washington, DC 20024 or call (866)632-9992 (Voice), (202) 401-0216 (TDD/TTY Hearing Impaired Only) or (202)720-8046 (FAX)