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**North Carolina Housing Finance Agency  
Home Ownership Mortgage Loan Programs and  
Mortgage Credit Certificate (MCC) Program**

**Summary of Recapture Requirements**

<b>Condition</b>	<b>Provision</b>
<b>To whom recapture applies</b>	<b>Buyers who receive a FirstHome™, NC Home Advantage Mortgage™ with \$15,000 DPA or MCC starting January 1, 1991.</b>
<b>When recapture is due</b>	<b>The year in which the owner sells or otherwise disposes of the home.</b>
<b>How much is recaptured</b>	<b>The maximum amount is 6.25 percent of the assisted mortgage amount.</b>
<b>Reductions and limitations</b>	<p><b>The recapture amount increases from \$0 to the maximum amount over the first 5 years of ownership, and then decreases to \$0 after 10 years.</b></p> <p><b>The recapture amount cannot exceed 50 percent of the gain realized on the sale.</b></p> <p><b>The recapture amount can be reduced depending on how much the household income exceeds the threshold income for that household size at the time of sale.</b></p>
<b>How recapture is paid</b>	<b>Recapture is part of the mortgagor's individual income tax liability.</b>
<b>Other provisions</b>	<p><b>The housing agency must inform the mortgagor of the potential recapture amount within 90 days of settlement.</b></p> <p><b>Home improvement loans are exempt from recapture.</b></p> <p><b>Other requirements, including limited exceptions to those subject to recapture and refinancing, were also enacted.</b></p>
<b>You may have to pay recapture if:</b>	<ul style="list-style-type: none"> <li><b>• Sell your house prior to ninth anniversary date of closing and;</b></li> <li><b>• Have significant increase in income and;</b></li> <li><b>• Make a significant net gain in the sale of the home</b></li> </ul>

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# The Basics Of Recapture

- Recapture applies to all NCHFA FirstHome™ mortgages, NC Home Advantage Mortgage™, or MCC-assisted loans closed after December 31, 1990.
- The maximum recapture will occur if the home is disposed of during the fifth year. The lowest recapture will occur within the first year and the ninth year.
- Recapture does not apply if the home is disposed of more than nine years after the loan closing.
- Recapture does not apply if disposition occurs due to the death of the mortgagor(s). A successor may be subject to recapture if the property is disposed of.
- Recapture does not apply to transfers to spouses and former spouses in which no gain or loss is recognized.
- The maximum recapture amount is provided immediately after the loan closing. The actual recapture amount is calculated at the time of disposition. A holding period adjustment and an income adjustment may reduce the amount of recapture.
- The recapture amount will be determined separately according to the respective interests in the residence when two or more persons (generally unmarried) receive an MCC-assisted mortgage or a FirstHome™ mortgage loan or a NC Home Advantage Mortgage™.
- The borrower is responsible for paying the recapture amount as additional federal tax liability upon the disposition of the home financed with an MCC-assisted mortgage or FirstHome™ loan or NC Home Advantage Mortgage™. The borrower is responsible for the recapture calculation and payment of the recapture amount to the federal government.

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# FirstHome Mortgage™, NC Home Advantage Mortgage™, or MCC Recapture Provision

General Information  
For Lenders, Realtors, Builders

## **Purpose**

Congress enacted legislation in 1988, subsequently amended in October of 1990, to recapture some or all the subsidy from first-time homebuyers who receive qualified mortgage bond assistance after January 1, 1991. This includes all buyers who use NCHFA FirstHome™ mortgages, NC Home Advantage Mortgage, and mortgage credit certificates (MCCs). The purpose of recapture is to retrieve the subsidy from owners who receive rapid income increases after they purchase their home and, as a result, do not need the subsidy to remain homeowners. Recapture became effective for all loans closed after December 31, 1990.

## **Recapture Concept**

The recapture of subsidy on a FirstHome™ mortgage, NC Home Advantage Mortgage™ or MCC is triggered when a disposition of the financed residence takes place within nine years of the purchase date. Transfers to a spouse in which, no gain or loss is recognized and dispositions by reason of death are excluded. The amount of recapture that owners might have to pay depends on how much their incomes have increased, their family size at the time of the sale, the size of their mortgages, the length of time they owned their home and any gain realized on disposition of their residence. The owner is responsible for paying the recapture amount as an additional federal tax liability for the tax year in which the home is disposed of. The owner is responsible for the calculation and payment to the federal government. The originating lender is only responsible for disclosure at time of application and closing. NCHFA may, subject to certain conditions reimburse eligible owners the amount of recapture tax paid under the FirstHome™ Mortgage or NC Home Advantage Mortgage™ program (recapture reimbursement does not apply to the MCC program).

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## How It Works

No recapture is required if the borrower's income at the time of disposition is below the threshold income. The threshold income is calculated as in the following example:

### *Example*

Assume the federal income limit at the time of purchase is \$35,200 based on a family size of two at the time of disposition. The disposition occurred 2 years and 2 months from the purchase date.

$$\begin{aligned} &\text{Threshold Income} \\ &\$35,200 \times (1.05)(1.05) = \$38,808 \end{aligned}$$

## Adjustments

Two adjustments may reduce the maximum recapture amount.

### *1. Holding-Period Adjustment*

The holding period adjustment affects the actual recapture amount based on how long the home is owned prior to disposition. The holding period percentage increases from 20% to 100% of the original mortgage amount over the first 5 years and then decreases evenly during years 6 to 9. Assume the mortgage was \$60,000 and the unit is sold at the end of 2 years and 2 months.

$$\begin{aligned} &\text{Maximum Recapture Amount after Application of Holding-Period Percentage (HPP)} \\ &\$60,000 \times .0625 \times .6 \text{ (year 3 HPP)} = \$2,250 \end{aligned}$$

### *2. Income Adjustment*

The income adjustment is to estimate, at the time of sale, whether the owner will still meet the income eligibility limits for an NCHFA mortgage or MCC. The threshold income is subtracted from the borrower's adjusted gross income at the time of disposition and divided by a constant factor of 5,000 to determine an income adjustment percentage. The income adjustment percentage cannot exceed 1.0. Assume the owner's income in the year of disposition is \$41,000.

$$\begin{aligned} &\text{Income Adjustment Percentage} \\ &\$41,000 - \$38,808 \div 5,000 = .4384 \end{aligned}$$

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## **Gain-on-Disposition**

The gain-on-disposition limitation ensures that the actual recapture amount does not exceed 50% of the gain realized on the disposition. Assume the realized gain is \$12,000.

$$\begin{aligned} &\text{Gain-on-Disposition Limitation} \\ &50\% \times \$12,000 = \$6,000 \end{aligned}$$

## **Adjusted Recapture**

The adjusted recapture amount includes the holding period adjustment and the income adjustment percentage.

$$\begin{aligned} &\text{Adjusted Recapture} \\ &\$2,250 \times .4384 = \$986.40 \end{aligned}$$

## **Recapture Calculation**

The actual recapture equals the lesser of Adjusted Recapture (\$986.40), or one-half the realized gain on the disposition (\$6,000). In this example the recapture amount will be \$986.40.

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# Recapture Formula

Several steps are required to calculate the actual recapture amount owed. Adjustments may be made based on the number of years the home is owned prior to disposition and the borrower's income at the time of disposition. The steps involved in the calculation are outlined as follows:

## **Threshold Income (Adjusted Qualifying Income)**

The highest federal family income (based on family size at the time of disposition) at the date of the loan closing multiplied by 1.05 to the *n*th power, where *n* equals the number of **full** years between the loan closing and the date of disposition.

## **Holding Period Percentage**

The percentage is based on the year in which the disposition occurs after the loan closing, according to the following table:

Year 1 - 20%	Year 4 - 80%	Year 7 - 60%
Year 2 - 40%	Year 5 - 100%	Year 8 - 40%
Year 3 - 60%	Year 6 - 80%	Year 9 - 20%

## **Maximum Recapture Amount**

The federally-subsidized amount which is 6.25% *multiplied* by the original principal amount of the mortgage, multiplied by the holding period percentage.

## **Income Percentage**

The modified adjusted gross income of the borrower for the taxable year in which the disposition occurs minus the threshold income divided by 5,000.

## **Adjusted Recapture Amount**

The maximum recapture multiplied by the income percentage.

## **Recapture**

Equals the lesser of the Adjusted Recapture Amount, or one-half the gain realized on the disposition.

# Recapture Examples

## \$108,800 Mortgage Amount (as an example)

Mortgage Amount	\$ 108,800	\$ 108,800	\$ 108,800	\$ 108,800	\$ 108,800
Disposition Period	13 months	37 months	13 months	13 months	61 months
Family Size at Disposition	3	3	1	3	3
Owner's Income at Disposition	\$ 62,000	\$ 62,000	\$ 59,000	\$ 70,000	\$ 62,000
Federal Income Limit	\$ 61,870	\$ 61,870	\$ 53,800	\$ 61,870	\$ 61,870
Realized Gain on Disposition	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000
Threshold Income	\$64,963.50	\$71,622.26	\$56,490.00	\$64,963.50	\$78,963.54
Maximum Recapture	\$ 2,720	\$ 5,440	\$ 2,720	\$ 2,720	\$ 5,440
Income Percentage	0	0	.5020	1.0	0
Adjusted Recapture	\$ 0	\$ 0	\$ 1,365.44	\$ 2,720	\$ 0
Recapture Amount (lesser of adjusted Recapture, or ½ gain realized)	\$ *0	\$ *0	\$ 1,365.44	\$ 2,720	\$ *0

\*Owner's income at disposition less than threshold income.





## Recapture Examples

# EXAMPLE A

J, a single individual, purchases a home with a \$110,000 loan. At the time of purchase, the applicable income limit for small families (2 or fewer persons) was \$71,600 and for large families (3 or more persons) was \$82,340. He marries S, and they have two children. They sell their home 2 years and 2 months later and realize a gain of \$15,000 on the sale of the home. In the year of sale, J and S's household income (adjusted gross income plus tax-exempt interest) is \$92,000.

Threshold Income:  $\$82,340 \times (1.05)^2 = \$90,780$

Holding Period Percentage (from Table) 60% (.6)

Maximum Recapture:  $\$110,000 \times .0625 \times .6 = \$4,125$

Income Adjustment:  $(\$92,000 - \$90,780) / 5000 = .2440$  (rounded down)  
If Income Adjustment Calculation  $< 1$ , Recapture equals  
Income Adjustment x Maximum Recapture

Adjusted Recapture:  $\$4,125 \times .2440 = \$1,006.50$

Recapture equals the lesser of Adjusted Recapture (\$1,006.50), Maximum Recapture (\$4,125), or one-half the gain on the house (\$7,500).

# EXAMPLE B

## Notice to Mortgagors of Federal Subsidized Amount and Family Income Limits

The maximum recapture tax that you may be required to pay as an addition to your federal income tax is **\$ 6,875.00**. This amount is 6.25% of the original principal amount of your mortgage loan and is your federally subsidized amount with respect to the loan.

Date You Sell Your Home	Holding Period Percentage	Adjusted Qualifying Income Family Members Living in Your Home at the Time of Sale	
		<u>2 or less</u>	<u>3 or more</u>
Before the first anniversary of closing (December 1, 2007)	20%	\$ 71,600.00	\$ 82,340.00
On or after the first anniversary of closing (December 1, 2007), but before the second anniversary of closing (December 1, 2008)	40%	\$ 75,180.00	\$ 86,457.00
On or after the second anniversary of closing (December 1, 2008), but before the third anniversary of closing (December 1, 2009)	60%	\$ 78,939.00	\$ 90,779.85
On or after the third anniversary of closing (December 1, 2009), but before the fourth anniversary of closing (December 1, 2010)	80%	\$ 82,885.95	\$ 95,318.84
On or after the fourth anniversary of closing (December 1, 2010), but before the fifth anniversary of closing (December 1, 2011)	100%	\$ 87,030.25	\$100,084.78
On or after the fifth anniversary of closing (December 1, 2011), but before the sixth anniversary of closing (December 1, 2012)	80%	\$ 91,381.76	\$105,089.02
On or after the sixth anniversary of closing (December 1, 2012), but before the seventh anniversary of closing (December 1, 2013)	60%	\$ 95,950.85	\$110,343.48
On or after the seventh anniversary of closing (December 1, 2013), but before the eighth anniversary of closing (December 1, 2014)	40%	\$100,748.39	\$115,860.65
On or after the eighth anniversary of closing (December 1, 2014), but before the ninth anniversary of closing (December 1, 2015)	20%	\$105,785.81	\$121,653.68

*Note: The closing date for the loan is December 1, 2003.*

# Recapture Calculation Worksheet

# EXAMPLE C

- A. Maximum federal family income for area, year, family size \$ 54,500.00
- B. Home was sold or transferred 3 years 4 months from the date of original loan closing.
- C. Amount in A x (1.05) to the nth power where *n* equals the number of full years from B = \$ 63,090.56
- D. Mortgagor(s) modified adjusted gross income for year in which house is sold (Form 1040) \$ 65,000.00  
 (tax-exempt income) + 0  
 (gain on sale on home) (report on tax returns as capital gain only.) - 0  
 (modified adjusted gross income) = \$ 65,000.00
- E. If the amount in C is greater than or equal to the amount in D, no recapture; stop here.
- F. Original mortgage loan amount \$108,896.00
- G. Applicable holding period percentage (year in which sale or disposition takes place) 80%
- |        |     |        |      |        |     |
|--------|-----|--------|------|--------|-----|
| Year 1 | 20% | Year 4 | 80%  | Year 7 | 60% |
| Year 2 | 40% | Year 5 | 100% | Year 8 | 40% |
| Year 3 | 60% | Year 6 | 80%  | Year 9 | 20% |
- H. Amount in F x 6.25% x percentage from G = \$ 5,444.80
- I. The amount in D subtract the amount in C ÷ 5000 = .382%  
 (use the calculated % or 1% whichever is less)  $\$1909.44 \div 5000$
- J. The amount in H x I = \$ 2,079.91
- K. Gain on sale of the home \$10,000 x 50% = \$ 5,000.00
- L. The recapture amount is the lesser of the amount in J or in K = \$ 2,079.91

# Recapture Provision Federal Family Income Limits Table

**SAMPLE**

Federal Income Limit					Federal Income Limit				
Counties	Small Family 2 or Less		Large Family 3 or More		Counties	Small Family 2 or Less		Large Family 3 or More	
	Non-Target	Target	Non-Target	Target		Non-Target	Target	Non-Target	Target
Alamance	\$53,800	\$64,560	\$61,870	\$75,320	Davidson	\$53,800	\$64,560	\$61,870	\$75,320
Alexander	\$53,800	\$64,560	\$61,870	\$75,320	Davie	\$58,200	\$69,840	\$66,930	\$81,480
Alleghany	\$53,800	\$64,560	\$61,870	\$75,320	Duplin	\$53,800	\$64,560	\$61,870	\$75,320
Anson	\$53,800	\$64,560	\$61,870	\$75,320	Durham	\$61,700	\$74,040	\$70,955	\$86,380
Ashe	\$53,800	\$64,560	\$61,870	\$75,320	Edgecombe	\$53,800	\$64,560	\$61,870	\$75,320
Avery	\$53,800	\$64,560	\$61,870	\$75,320	Forsyth	\$58,200	\$69,840	\$66,930	\$81,480
Beaufort	\$53,800	\$64,560	\$61,870	\$75,320	Franklin	\$71,600	\$85,920	\$82,340	\$100,240
Bertie	\$53,800	\$64,560	\$61,870	\$75,320	Gaston	\$64,400	\$77,280	\$74,060	\$90,160
Bladen	\$53,800	\$64,560	\$61,870	\$75,320	Gates	\$53,800	\$64,560	\$61,870	\$75,320
Brunswick	\$53,900	\$64,680	\$61,985	\$75,460	Graham	\$53,800	\$64,560	\$61,870	\$75,320
Buncombe	\$53,800	\$64,560	\$61,870	\$75,320	Granville	\$53,800	\$64,560	\$61,870	\$75,320
Burke	\$53,800	\$64,560	\$61,870	\$75,320	Greene	\$53,800	\$64,560	\$61,870	\$75,320
Cabarrus	\$64,400	\$77,280	\$74,060	\$90,160	Guilford	\$56,400	\$67,680	\$64,860	\$78,960
Caldwell	\$53,800	\$64,560	\$61,870	\$75,320	Halifax	\$53,800	\$64,560	\$61,870	\$75,320
Camden	\$53,800	\$64,560	\$61,870	\$75,320	Harnett	\$53,800	\$64,560	\$61,870	\$75,320
Carteret	\$53,800	\$64,560	\$61,870	\$75,320	Haywood	\$53,800	\$64,560	\$61,870	\$75,320
Caswell	\$53,800	\$64,560	\$61,870	\$75,320	Henderson	\$53,800	\$64,560	\$61,870	\$75,320
Catawba	\$53,800	\$64,560	\$61,870	\$75,320	Hertford	\$53,800	\$64,560	\$61,870	\$75,320
Chatham	\$61,700	\$74,040	\$70,955	\$86,380	Hoke	\$53,800	\$64,560	\$61,870	\$75,320
Cherokee	\$53,800	\$64,560	\$61,870	\$75,320	Hyde	\$53,800	\$64,560	\$61,870	\$75,320
Chowan	\$53,800	\$64,560	\$61,870	\$75,320	Iredell	\$56,900	\$68,280	\$65,435	\$79,660
Clay	\$53,800	\$64,560	\$61,870	\$75,320	Jackson	\$53,800	\$64,560	\$61,870	\$75,320
Cleveland	\$53,800	\$64,560	\$61,870	\$75,320	Johnston	\$71,600	\$85,920	\$82,340	\$100,240
Columbus	\$53,800	\$64,560	\$61,870	\$75,320	Jones	\$53,800	\$64,560	\$61,870	\$75,320
Craven	\$53,800	\$64,560	\$61,870	\$75,320	Lee	\$53,800	\$64,560	\$61,870	\$75,320
Cumberland	\$53,800	\$64,560	\$61,870	\$75,320	Lenoir	\$53,800	\$64,560	\$61,870	\$75,320
Currituck	\$60,300	\$72,360	\$69,345	\$84,420	Lincoln	\$55,100	\$66,120	\$63,365	\$77,140
Dare	\$57,900	\$69,480	\$66,585	\$81,060	Macon	\$53,800	\$64,560	\$61,870	\$75,320

**Note:** Refer to “Notice to Mortgagors of Federally Subsidized Amount and Family Income Limits” for actual figures, which will be sent to you within 90 days of closing.

**SAMPLE**

# Recapture Provision Federal Family Income Limits Table

Federal Income Limit					Federal Income Limit				
Counties	Small Family 2 or Less		Large Family 3 or More		Counties	Small Family 2 or Less		Large Family 3 or More	
	Non-Target	Target	Non-Target	Target		Non-Target	Target	Non-Target	Target
Madison	\$53,800	\$64,560	\$61,870	\$75,320	Stokes	\$58,200	\$69,840	\$66,930	\$81,480
Martin	\$53,800	\$64,560	\$61,870	\$75,320	Surry	\$53,800	\$64,560	\$61,870	\$75,320
McDowell	\$53,800	\$64,560	\$61,870	\$75,320	Swain	\$53,800	\$64,560	\$61,870	\$75,320
Mecklenburg	\$64,400	\$77,280	\$74,060	\$90,160	Transylvania	\$53,800	\$64,560	\$61,870	\$75,320
Mitchell	\$53,800	\$64,560	\$61,870	\$75,320	Tyrrell	\$53,800	\$64,560	\$61,870	\$75,320
Montgomery	\$53,800	\$64,560	\$61,870	\$75,320	Union	\$64,400	\$77,280	\$74,060	\$90,160
Moore	\$56,300	\$67,560	\$64,745	\$78,820	Vance	\$53,800	\$64,560	\$61,870	\$75,320
Nash	\$53,800	\$64,560	\$61,870	\$75,320	Wake	\$71,600	\$85,920	\$82,340	\$100,240
New Hanover	\$53,900	\$64,680	\$61,985	\$75,460	Warren	\$53,800	\$64,560	\$61,870	\$75,320
Northampton	\$53,800	\$64,560	\$61,870	\$75,320	Washington	\$53,800	\$64,560	\$61,870	\$75,320
Onslow	\$53,800	\$64,560	\$61,870	\$75,320	Watauga	\$53,800	\$64,560	\$61,870	\$75,320
Orange	\$61,700	\$74,040	\$70,955	\$86,380	Wayne	\$53,800	\$64,560	\$61,870	\$75,320
Pamlico	\$53,800	\$64,560	\$61,870	\$75,320	Wilkes	\$53,800	\$64,560	\$61,870	\$75,320
Pasquotank	\$53,800	\$64,560	\$61,870	\$75,320	Wilson	\$53,800	\$64,560	\$61,870	\$75,320
Pender	\$53,800	\$64,560	\$61,870	\$75,320	Yadkin	\$58,200	\$69,840	\$66,930	\$81,480
Perquimans	\$53,800	\$64,560	\$61,870	\$75,320	Yancey	\$53,800	\$64,560	\$61,870	\$75,320
Person	\$53,800	\$64,560	\$61,870	\$75,320					
Pitt	\$53,800	\$64,560	\$61,870	\$75,320					
Polk	\$53,800	\$64,560	\$61,870	\$75,320					
Randolph	\$56,400	\$67,680	\$64,860	\$78,960					
Richmond	\$53,800	\$64,560	\$61,870	\$75,320					
Robeson	\$53,800	\$64,560	\$61,870	\$75,320					
Rockingham	\$53,800	\$64,560	\$61,870	\$75,320					
Rowan	\$53,800	\$64,560	\$61,870	\$75,320					
Rutherford	\$53,800	\$64,560	\$61,870	\$75,320					
Sampson	\$53,800	\$64,560	\$61,870	\$75,320					
Scotland	\$53,800	\$64,560	\$61,870	\$75,320					
Stanly	\$53,800	\$64,560	\$61,870	\$75,320					



North Carolina Housing Finance Agency (NCHFA)  
First-Time Homebuyer Programs

**Notice to Mortgagors of Potential Recapture of Federal Subsidy**

The below-market rate on your FirstHome Mortgage™, NC Home Advantage Mortgage™, or Mortgage Credit Certificate has been made possible through the use of tax-exempt bond authority by the North Carolina Housing Finance Agency (NCHFA).

If you dispose of all or part of the interest in your home at a gain within nine years of the date of loan closing, your federal income tax for the year in which the disposition occurs may be increased by a portion of the federal subsidy received by you ("Recapture").

The recapture is accomplished by an increase in your federal income tax for the year in which you sell your home. The recapture only applies, however, if you sell your home at a gain and IF your income increases above specified levels.

Within 90 days of the loan closing NCHFA will provide you with a "Notice to Mortgagors of Federally-Subsidized Amount and Family Income Limits." This form contains information that you will need to calculate the maximum amount that you may be required to pay as an addition to your federal income tax liability if you dispose of all or part of the interest in your home. You may wish to consult a tax advisor or the local office of the Internal Revenue Service at the time you sell your home to determine the amount, if any, of the recapture tax. None of these calculations need be made unless you dispose of an interest in your home within nine years from the date of closing.

The actual amount of Recapture can only be calculated at the time of disposition. Several steps are required to calculate the actual Recapture amount. Adjustments may be made based on the number of years the home is owned by you and your income at the time of disposition. The following outlines the steps involved in the calculation:

**Threshold Income (Adjusted Qualifying Income)**

The highest federal family income, (based on family size at the time of disposition) at the date of the loan closing multiplied by 1.05 to the  $n^{\text{th}}$  power where "n" is the number of full years between the loan closing and the date of disposition.



### **Holding Period Percentage**

The percentage is based on the year in which the disposition occurs after the loan closing date according to the following table:

Year 1	20%		Year 4	80%		Year 7	60%
Year 2	40%		Year 5	100%		Year 8	40%
Year 3	60%		Year 6	80%		Year 9	20%

### **Maximum Recapture Amount**

The federally-subsidized amount which is 6.25%, multiplied by the highest principal amount of the mortgage, multiplied by the holding period percentage.

### **Income Percentage**

The modified adjusted gross income of the borrower for the taxable year in which the disposition occurs minus the threshold income divided by a constant factor of 5,000.

### **Adjusted Recapture Amount**

The maximum recapture multiplied by the income percentage.

### **Recapture**

Equals the lesser of the Adjusted Recapture Amount, or one-half the gain realized on the disposition. If the disposition occurs other than through a sale, exchange or involuntary conversion, gain for purposes of Recapture will be determined as if the interest had been sold for its fair market value on the date of disposition. Further, in the event your home is destroyed by fire, storm, flood or other casualty, no Recapture will be required if you purchase additional property for use as your principal residence on the site of the home financed with this mortgage within the period of time specified in Section 1033 (a)(2)(B) of the Internal Revenue Code.

This notice is furnished by the North Carolina Housing Finance Agency according to the requirements of Section 143 (m)(7) of the Code. It should be kept by you with your mortgage loan files. You should consult your own tax advisor regarding the calculation of the Recapture amount if you dispose of any interest in your home within nine years of the date of this notice.



North Carolina Housing Finance Agency (NCHFA)  
First-Time Homebuyer Programs

**Notice to Mortgagors of Maximum Recapture Tax and Method to Compute  
Recapture Tax on Sale of Home**

**General**

If you sell your home within nine years after closing your mortgage, you may have to pay a recapture tax as calculated below. The recapture tax may also apply if you dispose of your home in some other way, for example, if you give your home to a relative. Any reference in this notice to the “sale” of your home also includes other ways of disposing of your home.

**Exceptions**

In the following situations, no recapture tax is due.

- You dispose of your home more than nine years after you close your mortgage.
- Your home is disposed of as a result of your death.
- You transfer your home to your spouse or to your former spouse incident to divorce and you have no gain or loss included in your income under section 1041 of the Internal Revenue Code.
- You dispose of your home at a loss.

**Maximum Recapture Tax**

The maximum recapture tax that you may be required to pay is calculated for you in the enclosed notice. This amount is 6.25% of the original principal amount of your mortgage loan. This is your federally subsidized amount with respect to the loan. If recapture tax is due, you would pay it as an addition to your federal income tax for the year you dispose of your home.

**Actual Recapture Tax**

The actual recapture tax, if any, can only be determined when you sell your home. It is the lesser of (1) 50% of any gain you realize, regardless of whether you have to include that gain in your income for federal income tax purposes, or (2) your recapture amount determined by multiplying the following three numbers:

- The maximum recapture tax, as described above and as shown in the enclosure, *times*
- The holding period percentage, as listed in the enclosure, *times*
- The income percentage



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### **Calculate the income percentage as follows:**

Subtract the applicable “Adjusted Qualifying Income” in the taxable year in which you sell your home, with the following two adjustments: (a) your adjusted gross income must be increased by the amount of any interest that you receive or accrue in the taxable year from tax-exempt bonds that is excluded from your gross income (under section 103 of the Internal Revenue Code); and (b) your adjusted gross income must be decreased by the amount of any gain included in your gross income by reason of the sale of your home.

If the result is zero or less, you owe no recapture tax. If it is \$5,000 or more, your income percentage is 100%. If it is greater than zero but less than \$5,000, it must be divided by \$5,000. This fraction, expressed as a percentage, represents your income percentage. For example, if the fraction is \$1,000/\$5,000, your income percentage is 20%.

### **Limitations and Special Rules on Recapture Tax**

- If you give away your home (other than to your spouse or ex-spouse incident to divorce), you must determine your actual recapture tax as if you had sold your home for its fair market value.
- If your home is destroyed by fire, storm, flood, or other casualty, there generally is no recapture tax if, within two years, you purchase additional property for use as your principal residence on the site of the home financed with your original subsidized mortgage loan.
- In general, except as provided in future regulations, if two or more persons own a home and are jointly liable for the subsidized Mortgage loan, the actual recapture tax is determined separately for them based on their interests in the home.
- If you repay your loan in full during the nine year period and sell your home during this period, your holding period percentage may be reduced under the special rule in section 143(m)(4)(C)(ii) of the Internal Revenue Code.
- Other special rules may apply in particular circumstances. You may wish to consult with a tax advisor the local office of the Internal Revenue Service when you sell or otherwise dispose of your home to determine the amount, if any, of your actual recapture tax. See section 143(m) of the Internal Revenue Code generally.