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

Overview of Recapture

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. NCHFA may reimburse eligible borrowers the recapture tax amount upon receipt and acceptable documentation. Refer to the Recapture Tax Reimbursement document for complete details.

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

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 or 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.

Contact your tax consultant or tax advisor for more detailed information. NCHFA is not a qualified tax advisor or able to provide individual tax advice or information.

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Notice to Mortgagors of Potential Recapture of Federal Subsidy

The below-market rate on your FirstHome Mortgage™, applicable 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). NCHFA may reimburse eligible borrowers the recapture tax amount upon receipt and acceptable documentation. Refer to the Recapture Tax Reimbursement document for complete details.

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 household 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 are relevant 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^{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 of 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.

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Recapture Tax Reimbursement

General Information

Recapture tax is a federally mandated tax implemented in 1991 for homebuyers who use certain homebuyer Programs financed by tax-exempt mortgage revenue bonds.

For recapture to apply to you, you must sell your home within 10 years, your household income must rise significantly during the time you own the home **and** you must realize a substantial gain from the sale. If all three of these criteria are met and a repayment is due, it is calculated by a formula based on the length of time you have lived in your home and the amount that your income and/or the value of your home have increased. Most borrowers will not have to pay any recapture; however, you are required to complete IRS Form 8828 to determine if you owe any recapture tax.

Reimbursement Concept

Subject to the requirements set forth below, NCHFA will reimburse eligible borrowers who are required to pay recapture under IRS guidelines and make a legitimate recapture tax payment (not to exceed $10,000) to the IRS, provided that specific requirements are met.

Recapture Tax Reimbursement does not apply to the Mortgage Credit Certificate (MCC) program.

Specific Requirements

1. The loan must have closed after January 1, 2007.

2. The loan must be outstanding at the time of sale. NCHFA will not reimburse the borrower if the loans have been subsequently refinanced from time of orignal approval by NCHFA.

3. The reimbursement request must be submitted by June 15th of the calendar year immediately following the calendar year in which home is sold.

4. NCHFA will reimburse only the amount of recapture tax properly paid to the IRS. NCHFA will not reimburse penalties or interest owned by the borrowers.

5. The information submitted to the IRS on the borrower's federal tax return for the calendar year of disposition must be true and correct.

6. If the home is sold within two (2) years after loan closing, NCHFA will not reimburse recapture tax if a new wage earner is included in the household who was not approved by NCHFA at the time of original loan approval.

How to Apply for Reimbursement AFTER The Dispostion (Sale) of Your Home

Go to www.nchfa.com and download the "Recapture Tax Reimbursement Request Form" or call (888) 271-6367.