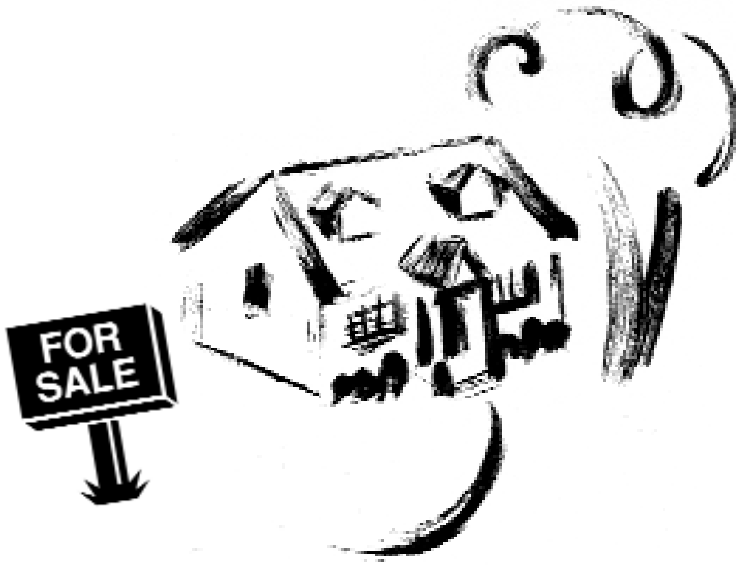


What Recapture Means for You



Removing the Mystery Behind the Federal Recapture Tax

A federal provision requires that, under certain limited conditions, homeowners who use mortgages financed with Mortgage Revenue Bonds (MRBs) repay to the federal government part of the gain from the sale of their home. In practice, “recapture tax” is rarely due.

However, since both the North Carolina Housing Finance Agency’s FirstHome Mortgage and its Mortgage Credit Certificates use this financing, the following information is presented to inform you about the provision, alleviate needless worries, and state the N.C. Housing Finance Agency’s policy of reimbursing most homeowners for recapture tax, in the rare cases when it is owed.

For recapture to apply, the homeowner must:

- Sell the home within nine years of purchase
- Have a significant increase in household income
- Realize a gain from the sale of the home.

No recapture tax is due unless all three criteria are met.

Removing the mystery

The purpose of recapture is to focus the benefits of the MRB Program on low- and moderate-income families who need it most. Any recapture that is due is paid as part of the homeowner’s federal income tax liability for the year

the home is sold. The homeowner may then apply to the N.C. Housing Finance Agency for reimbursement. The one exception that precludes reimbursement is if the home is sold within two years after the loan closes and a new wage earner is included in the household.

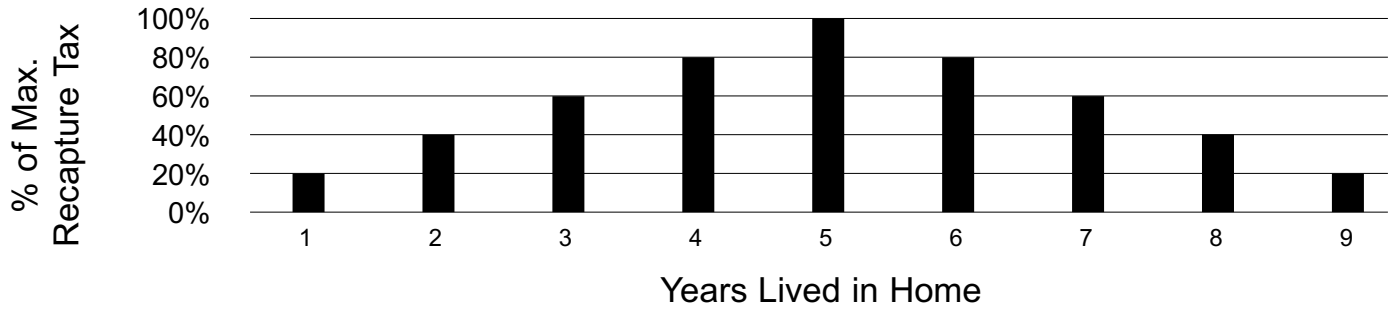
Recapture is not triggered unless the homeowners’ income increases above the MRB income limits in effect when the home was purchased by more than 5% in each year. For example, Fred earned \$40,000 when he purchased his home, but the income limit was \$50,000. Before recapture is considered, Fred’s household income must increase above the \$50,000 maximum qualifying income by 5% for each year he owns the home. If he sells in Year 5, recapture is not considered unless household income is above \$62,500.

Calculating recapture

The maximum amount of recapture is 6.25% of the original loan amount or 50% of the gain from the sale, *whichever is less*.

The maximum rate of 6.25% of the original mortgage amount is reduced based on how long the owners live in the home, as shown in the chart below. For example, if Fred sells in Year 2 or Year 8, the maximum repayment would be 40% x 6.25% (which is 2.5% of

Maximum Tax is 6.25% of the Original Mortgage



The maximum recapture tax due is never more than 6.25% in year five of homeownership.

the original mortgage amount) or 50% of the gain from the sale, whichever is less.

Gain from the home's sale is calculated after deducting the real estate agent's fee, legal fees, and closing costs. If Fred has a large increase in income, sells his home in Year 5, and clears \$2,000 from the sale, the maximum he could owe would be \$1,000—50% of the gain. In most cases, he would be eligible for reimbursement by the N.C. Housing Finance Agency.

Additional Questions & Answers

What happens if the loan is assumed?

If the sale or transfer occurs before Year 10 of ownership, the original borrower pays any recapture tax that may be due, and a new nine-year period begins for the assuming purchaser.

Is recapture tax due if the borrower dies within the recapture period?

No. A death transfer is not a sale or transfer for the purpose of recapture.

What if the home is destroyed as a result of fire, flood or other natural disaster?

If the home is destroyed and the borrower rebuilds on the same site within two years after the year in which the insurance proceeds are received, no recapture tax is due at that time.

More Information

You will receive a more detailed statement of Recapture Provisions and Disclosures when you apply for a FirstHome Mortgage or Mortgage Credit Certificate. You will also receive a personalized "Recapture Statement Disclosure" and statement of the N.C. Housing Finance Agency's reimbursement policy at closing. To learn more, you may also call 1-800-393-0988 and ask to speak with an underwriter.



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