

Homesaver and Lifeline only

RECAPTURE TAX INSTRUCTIONS
FOR REFINANCING SUBPRIME MORTGAGE LOANS

Sale of a residence that is refinanced by CDA in its subprime mortgage refinancing program may be subject to recapture tax under the general rules for recapture tax, applied as follows:

1. The nine-year holding period during which a sale may produce a recapture tax begins on the date of closing of the CDA mortgage. A sale more than nine years after that date will not give rise to a tax. The holding period percentage for a sale within the nine-year period is determined based on the number of years from the closing of the CDA mortgage.

2. The federally subsidized amount and the income percentage are determined under the general rules.

3. The amount of the borrowers' gain on the sale of the residence is determined under general tax rules, by reference to the borrowers' tax basis for the residence and amount received from the sale. The overall limitation of recapture tax to 50% of gain applies.

4. The procedure for CDA to reimburse the tax is the same as with other mortgages.