

Below is a summary of some of the Minnesota Housing disclosures and forms that you will sign at your loan closing. Please review the documents with your loan officer or mortgage closers prior to signing. Do not sign them prior to closing.

Borrower Affidavit

This document says that if you provide false information on your loan application, Minnesota Housing has the right to declare your loan due. By signing this document you are affirming, among other things, that:

- You intend to occupy the property as your primary residence within 60 days of closing.
- You will not use more than 15% of the residence as a business.
- You did not have a present ownership interest in a principal residence in the past three years.
- You have not completed any work on the property.
- You do not have any loans/liens/agreements with the property seller outside of the submitted purchase agreement and other agreements provided to Minnesota Housing.
- No part of the mortgage loan is being used to purchase appliances, furniture or other items not affixed to the property.
- You have disclosed all sources of income.

Subsidy Recapture/Tennessee Warning

The first portion of this document explains the potential for a **subsidy recapture tax**. It is important to note that while the possibility of a subsidy recapture tax exists, it is very rare.

What is “subsidy recapture?”

Minnesota Housing offers affordable interest rates through its Start Up program by selling federally tax-exempt mortgage revenue bonds. The federal tax code allows the federal government to recoup some of the tax-exempt subsidy Start Up borrowers received, but only under certain conditions. Therefore, if you receive a Start Up loan, you may be required to pay a “subsidy recapture tax” if you sell or transfer your house during the first nine years of the loan and meet the other recapture conditions. These conditions are disclosed to you in the Subsidy Recapture Disclosure Statement & Tennessee Warning, which was given to you by your lender. You will sign this document at closing.

For most homebuyers, the financial benefits of homeownership and a Minnesota Housing Start Up loan far outweigh the risk of recapture.

What triggers recapture?

Most homebuyers who get a Start Up loan will never have to pay any recapture tax.

To owe a “subsidy recapture” tax, all three of the following criteria must apply:

1. You sell your home within the first nine years after closing the loan,
AND

2. You earn significantly more income than when you bought the home (see the “Household Adjusted Qualifying Income” limits in column 2 on pages 4-6 of the disclosure),
AND
3. You realize a gain from the sale of the home as defined by the IRS (this is different from exposure to capital gains tax).

Recapture Tax will not be assessed if, for example:

- You own the house more than 9 years (does not need to be your principal residence the entire 9 years), OR
- You sell or give your house to your spouse or to your ex-spouse incident to a divorce, OR
- You sell your house with no gain on sale, as defined by the IRS. (Ask a tax professional for details—you can sell a home for more than the original purchase price without necessarily having a “gain on sale.”)

What if I refinance?

While a refinance does not trigger payment of the tax, it also does not eliminate the potential for recapture tax, which remains in place for the nine-year period from the original loan closing.

How much would the Recapture tax be?

Borrowers will never pay more than 6.25% of the original note amount, and the actual amount owed may be reduced by the following factors:

- The tax adjusts depending on how long you have been in your home, with the fifth year having the highest tax.
- If your income exceeds the maximum income limit by less than \$5,000, only a percentage of the tax must be paid.
- The repayment tax cannot exceed 50% of the gain on the sale of your home. (The IRS definition of the “gain on sale” may be much less than the money you receive at the closing table after selling your home, so check with a tax professional for details.)

What if the recapture tax has to be paid?

Borrowers very rarely meet all three conditions to trigger the tax, but those few who do must pay the recapture tax to the IRS when they file their federal income tax return for the year in which the home was sold.

For questions about paying the tax or calculating how much must be paid, consult a tax specialist.

What is the Tennessean Warning?

The second portion of the document is our **privacy policy and Tennessean Warning**. This explains that your personal information such as your social security number and other identification are treated as classified/private information. They are used solely for the purposes of approving your application and are shared only with people or entities as required for the processing of your loan. It also states that if you fail to provide your social security number, your lender will not be able to approve you for a Minnesota Housing loan.

FHA Notice to Buyers and VA Notice to Buyers*

**For FHA or VA loans only*

By signing this document you are affirming, among other things, that:

- You must occupy the property as your primary residence; you may not use it as an investment property or for business purposes.
- The loan is assumable but **only** if the person buying the house qualifies for a Minnesota Housing loan. Otherwise you need to sell the property and pay off the existing lien outright and the buyers must qualify for their own financing.
- If the property is foreclosed upon and there is a balance remaining after the foreclosure sale, Minnesota Housing may, at its discretion, file a judgment against you to collect the remaining balance.
- If you violate the provisions explained in these documents and the violation results in a foreclosure, HUD or VA will not be able to help you.

Appliance Form

You will sign this form if:

- You have an FHA 203k loan or a loan for new construction; and,
- the cost of the appliances has a direct effect on the settlement costs of the home.