§ 1.860D–1 Definition of a REMIC.

(a) In general. A real estate mortgage investment conduit (or REMIC) is a qualified entity, as defined in paragraph (c)(3) of this section, that satisfies the requirements of section 860D(a). See paragraph (d)(1) of this section for the manner of electing REMIC status.

(b) Specific requirements—(1) Interests in a REMIC—(i) In general. A REMIC must have one class, and only one class, of residual interests. Except as provided in paragraph (b)(1)(ii) of this section, every interest in a REMIC must be either a regular interest (as defined in section 860G(a)(1) and § 1.860G–1(a)) or a residual interest (as defined in section 860G(a)(2) and § 1.860G–1(c)).

(ii) De minimis interests. If, to facilitate the creation of an entity that elects REMIC status, an interest in the entity is created and, as of the startup day (as defined in section 860G(a)(9) and § 1.860G–2(k)), the fair market value of that interest is less than the lesser of $1,000 or 1/1,000 of one percent of the aggregate fair market value of all the regular and residual interests in the REMIC, then, unless that interest is specifically designated as an interest in the REMIC, the interest is not treated as an interest in the REMIC for purposes of section 860D(a) (2) and (3) and paragraph (B)(1)(1) of this section.

(2) Certain rights not treated as interests. Certain rights are not treated as interests in a REMIC. Although not an exclusive list, the following rights are not interests in a REMIC:

(i) Payments for services. The right to receive from the REMIC payments that represent reasonable compensation for services provided to the REMIC in the ordinary course of its operation is not an interest in the REMIC. Payments made by the REMIC in exchange for services may be expressed as a specified percentage of interest payments due on qualified mortgages or as a specified percentage of earnings from permitted investments. For example, a mortgage servicer’s right to receive reasonable compensation for servicing the mortgages owned by the REMIC is not an interest in the REMIC.

(ii) Stripped interests. Stripped bonds or stripped coupons not held by the REMIC are not interests in the REMIC even if, in a transaction preceding or contemporaneous with the formation of the REMIC, they and the REMIC’s qualified mortgages were created from the same mortgage obligation. For example, the right of a mortgage servicer to receive a servicing fee in excess of reasonable compensation from payments it receives on mortgages held by a REMIC is not an interest in the REMIC. Further, if an obligation with a fixed principal amount provides for interest at a fixed or variable rate and for certain contingent payment rights (e.g., a shared appreciation provision or a percentage of mortgagor profits provision), and the owner of the obligation contributes the fixed payment rights to a REMIC and retains the contingent payment rights, the retained contingent payment rights are not an interest in the REMIC.

(iii) Reimbursement rights under credit enhancement contracts. A credit enhancer’s right to be reimbursed for amounts advanced to a REMIC pursuant to the terms of a credit enhancement contract (as defined in §1.860G–2 (c)(2)) is not an interest in the REMIC even if the credit enhancer is entitled to receive interest on the amounts advanced.

(iv) Rights to acquire mortgages. The right to acquire or the obligation to purchase mortgages and other assets from a REMIC pursuant to a clean-up call (as defined in §1.860G–2(j)) or a qualified liquidation (as defined in section 860F(a)(4)), or on conversion of a convertible mortgage (as defined in §1.860G–2(d)(5)), is not an interest in the REMIC.

(3) Asset test—(1) In general. For purposes of the asset test of section...
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860D(a)(4), substantially all of a qualified entity’s assets are qualified mortgages and permitted investments if the qualified entity owns no more than a de minimis amount of other assets.

(ii) Safe harbor. The amount of assets other than qualified mortgages and permitted investments is de minimis if the aggregate of the adjusted bases of those assets is less than one percent of the aggregate of the adjusted bases of all of the REMIC’s assets. Nonetheless, a qualified entity that does not meet this safe harbor may demonstrate that it owns no more than a de minimis amount of other assets.

(4) Arrangements test. Generally, a qualified entity must adopt reasonable arrangements designed to ensure that—

(i) Disqualified organizations (as defined in section 860E(e)(5)) do not hold residual interests in the qualified entity; and

(ii) If a residual interest is acquired by a disqualified organization, the qualified entity will provide to the Internal Revenue Service, and to the persons specified in section 860E(e)(3), information needed to compute the tax imposed under section 860E(e) on transfers of residual interests to disqualified organizations.

(5) Reasonable arrangements—(i) Arrangements to prevent disqualified organizations from holding residual interests. A qualified entity is considered to have adopted reasonable arrangements to ensure that a disqualified organization (as defined in section 860E(e)(5)) will not hold a residual interest if—

(A) The residual interest is in registered form (as defined in §5f.103–1(c) of this chapter); and

(B) The qualified entity’s organizational documents clearly and expressly prohibit a disqualified organization from acquiring beneficial ownership of a residual interest, and notice of the prohibition is provided through a legend on the document that evidences ownership of the residual interest or through a conspicuous statement in a prospectus or private offering document used to offer the residual interest for sale.

(ii) Arrangements to ensure that information will be provided. A qualified entity is considered to have made reasonable arrangements to ensure that the Internal Revenue Service and persons specified in section 860E(e)(3) as liable for the tax imposed under section 860E(e) receive the information needed to compute the tax if the qualified entity’s organizational documents require that it provide to the Internal Revenue Service and those persons a computation showing the present value of the total anticipated excess inclusions with respect to the residual interest for periods after the transfer. See §1.860E–2(a)(5) for the obligation to furnish information on request.

(6) Calendar year requirement. A REMIC’s taxable year is the calendar year. The first taxable year of a REMIC begins on the startup day and ends on December 31 of the same year. If the startup day is other than January 1, the REMIC has a short first taxable year.

(c) Segregated pool of assets—(1) Formation of REMIC. A REMIC may be formed as a segregated pool of assets rather than as a separate entity. To constitute a REMIC, the assets identified as part of the segregated pool must be treated for all Federal income tax purposes as assets of the REMIC and interests in the REMIC must be based solely on assets of the REMIC.

(2) Identification of assets. Formation of the REMIC does not occur until—

(i) The sponsor identifies the assets of the REMIC, such as through execution of an indenture with respect to the assets; and

(ii) The REMIC issues the regular and residual interests in the REMIC.

(3) Qualified entity defined. For purposes of this section, the term “qualified entity” includes an entity or a segregated pool of assets within an entity.

(d) Election to be treated as a real estate mortgage investment conduit—(1) In general. A qualified entity, as defined in paragraph (c)(3) of this section, elects to be treated as a REMIC by timely filing, for the first taxable year of its existence, a Form 1066, U.S. Real Estate Mortgage Investment Conduit Income Tax Return, signed by a person authorized to sign that return under §1.860F–4(c). See §1.9100–1 for rules regarding
extensions of time for making elections. Once made, this election is irrevoca-
ble for that taxable year and all succeeding taxable years.

(2) Information required to be reported
in the REMIC’s first taxable year. For
the first taxable year of the REMIC’s exis-
tence, the qualified entity, as de-
defined in paragraph (c)(3) of this section,
must provide either on its return or in
a separate statement attached to its return—
(i) The REMIC’s employer identifica-
tion number, which must not be the
same as the identification number of
any other entity,
(ii) Information concerning the terms
and conditions of the regular interests
and the residual interest of the REMIC,
or a copy of the offering circular or
prospectus containing such informa-
tion,
(iii) A description of the prepayment
and reinvestment assumptions that are
made pursuant to section 1272(a)(6) and
the regulations thereunder, including a
statement supporting the selection of
the prepayment assumption,
(iv) The form of the electing qualified
entity under State law or, if an elec-
tion is being made with respect to a
segregated pool of assets within an en-
tity, the form of the entity that holds
the segregated pool of assets, and
(v) Any other information required
by the form.

(3) Requirement to keep sufficient
records. A qualified entity, as defined in
paragraph (c)(3) of this section, that
elects to be a REMIC must keep suffi-
cient records concerning its invest-
ments to show that it has complied
with the provisions of sections 860A
through 860G and the regulations
thereunder during each taxable year.

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§ 1.860E–1 Treatment of taxable in-
come of a residual interest holder
in excess of daily accruals.

(a) Excess inclusion cannot be offset by
otherwise allowable deductions—(1) In
general. Except as provided in para-
graph (a)(3) of this section, the taxable
income of any holder of a residual in-
terest for any taxable year is in no
event less than the sum of the excess
inclusions attributable to that holder’s
residual interests for that taxable year.
In computing the amount of a net oper-
ating loss (as defined in section 172(c))
or the amount of any net operating
loss carryover (as defined in section
172(b)(2)), the amount of any excess in-
inclusion is not included in gross income
or taxable income. Thus, for example,
if a residual interest holder has $100 of
gross income, $25 of which is an excess
inclusion, and $90 of business deduc-
tions, the holder has taxable income of
$25, the amount of the excess inclusion,
and a net operating loss of $15 ($75 of
other income – $90 of business deduc-
tions).

(2) Affiliated groups. If a holder of a
REMIC residual interest is a member of
an affiliated group filing a consolidated
income tax return, the taxable income
of the affiliated group cannot be less
than the sum of the excess inclusions
attributable to all residual interests
held by members of the affiliated

group.

(3) Special rule for certain financial in-
institutions—(i) In general. If an organiza-
tion to which section 593 applies holds
a residual interest that has significant
value (as defined in paragraph (a)(3)(iii)
of this section), section 860E(a)(1) and
paragraph (a)(1) of this section do not
apply to that organization with respect
to that interest. Consequently, an or-
ganization to which section 593 applies
may use its allowable deductions to
offset an excess inclusion attributable
to a residual interest that has signifi-
cant value, but, except as provided in
section 860E(a)(4)(A), may not use its
allowable deductions to offset an ex-
cess inclusion attributable to a resid-
ual interest held by any other member
of an affiliated group, if any, of which
the organization is a member. Further,
a net operating loss of any other mem-
er of an affiliated group of which the
organization is a member may not be
used to offset an excess inclusion at-
tributable to a residual interest held
by that organization.

(ii) Ordering rule—(A) In general. In
computing taxable income for any
year, an organization to which section
593 applies is treated as having applied
its allowable deductions for the year
first to offset that portion of its gross
income that is not an excess inclusion

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