

**NOTICE TO MORTGAGOR OF MAXIMUM RECAPTURE TAX AND OF
METHOD TO COMPUTE RECAPTURE TAX ON SALE OF HOME**

(To be completed by Mortgage Lender and executed at time of loan closing. This document is the Notice of Potential Recapture of Sale of home.)

This document is a summary of the recapture provisions and qualifying income charts in effect on the date hereof and should not be construed to be tax advice. You should consult a tax advisor or the local office of the Internal Revenue Service at the time you sell or otherwise dispose of your home to determine the amount, if any, of the recapture tax.

Property Address:

INTRODUCTION: The mortgage loan being made to you today in connection with your residence has been financed with the proceeds of certain tax-exempt bonds. Because you are receiving a mortgage loan from the proceeds of a tax-exempt bond, you are receiving the benefit of a lower interest rate than is customarily charged on other mortgage loans. This notice is intended to inform you that as a recipient of a mortgage loan from the proceeds of tax-exempt bonds, you may be subject to a federal recapture tax on certain sales or other dispositions of your residence if you sell or otherwise dispose of your residence during the next nine (9) years. The amount of any 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 or dispose of your residence at a gain and if your income increases more than five percent (5%) per year above the income limits in effect when the home was bought for each year the home is owned.

The recapture tax will not apply in certain circumstances, as described below.

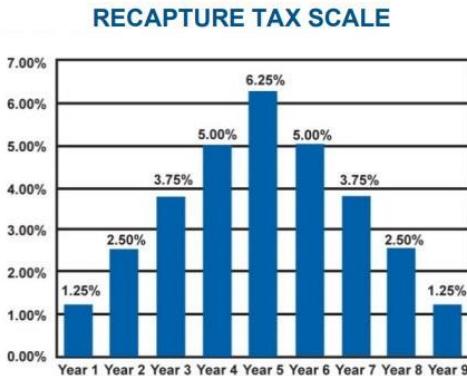
The recapture amount is based on a formula that includes the amount of the mortgage loan, the number of years the mortgage loan is outstanding, the gain on the sale or other disposition of your residence, and your income.

MAXIMUM RECAPTURE TAX: The maximum recapture tax that you may be required to pay is \$. This amount is 6.25 percent of the highest principal amount of your mortgage loan (i.e., \$) and is your federally subsidized amount with respect to the loan.

ACTUAL RECAPTURE TAX: The actual recapture tax, if any, can only be determined when you sell your residence. It is the lesser of (1) 50% of your gain on the sale of your residence, 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:

- (a) \$ Maximum recapture tax indicated in the paragraph above, x (b)
Holding period percentage (see chart below) x (c)
Income Percentage (see below)

The holding period percentage during the first nine (9) years is as follows:



In effect, the recapture amount begins at 1.25 percent of the original amount of your mortgage loan during the first year and then increases by 1.25 percent during each of the next four years after the loan is made to a maximum of 6.25 percent of the original amount of your mortgage loan during the fifth year. After five years, the recapture amount decreases by 1.25 percent during each year until it is eliminated after the ninth year.

INCOME PERCENTAGE CALCULATION: The recapture amount may be reduced or eliminated depending upon whether or by how much your family's modified adjusted gross income for the year during which you dispose of your residence exceeds the applicable "adjusted qualifying income." Your family's adjusted gross income is modified to include interest on tax-exempt bonds and to exclude any gain on the sale of your residence. The adjusted qualifying income is a formula amount based on either the area or the statewide median income of similar sized families, whichever is higher, for the year during which the mortgage loan is made. The adjusted qualifying incomes applicable to your area (county and targeted or non-targeted) for each category of family size of the nine-year recapture period is detailed on the attached chart. Your property is currently in a 1) targeted or 2) non-targeted area, and you will use the chart with the corresponding label when performing the income percentage calculation.

If your family's modified adjusted gross income does not exceed the applicable adjusted qualifying income in the chart, your recapture amount is zero. If your family's modified adjusted gross income exceeds the applicable adjusted qualifying income by at least \$5,000, the recapture amount is 100 percent of the recapture amount described above (i.e., the maximum recapture amount multiplied by the holding period percentage). If your family's modified gross income exceeds the applicable adjusted qualifying income by less than \$5,000, the recapture amount is the recapture amount described above multiplied by the "income percentage." The "income percentage" is 1 percent for each \$50 by which your family's modified adjusted gross income exceeds the applicable adjusted qualifying income. For example, if the excess is \$500, the income percentage is 10 percent.

If a recapture amount is due, it is payable with your federal income tax for the year during which you dispose of your residence by sale, exchange or gift.

NO RECAPTURE TAX DUE: However, the recapture amount is not payable if the disposition is (1) by reason of death; (2) a transfer to a spouse or a former spouse in connection with a divorce and you have no gain or loss included in your income under Section 1041 of the Internal Revenue Code; (3) later than nine years after the date the mortgage loan is made; or (4) at a loss.

LIMITATIONS AND SPECIAL RULES ON RECAPTURE TAX: Additionally, there are limitations and special rules related to the recapture tax: (1) if you give away your home (other than to your spouse or former spouse incident to divorce), you must determine your recapture tax as if you had sold your home for its fair market value; (2) if your home is destroyed by fire, storm, flood, or other casualty, there is generally no recapture tax if, within two years, your residence is repaired or replaced on the same site; (3) generally, if two or more persons own a home and are jointly liable for the subsidized mortgage loan, the recapture tax is determined separately for them based on their interests in the home; for tenants by the entirety, where each party has an undivided interest in the home, the recapture tax is determined by treating the joint owners of the home as one singular owner; and (4) if you repay your loan in full during the nine-year recapture period and you sell your home during this period, your holding period percentage may be reduced under section 143(m)(5)(C)(ii) of the Internal Revenue Code. Other special rules may apply. You should consult with a tax advisor or the local office of the Internal Revenue Service when you sell or otherwise dispose of your residence.

I have completed the portions of the Notice relating to the maximum recapture amount and adjusted qualifying incomes.

Lender Name:

Lender Representative Name:

Signature:

Date:

I/We have received and acknowledged;

Borrower Name:	Borrower Name:
Signature:	Signature:
Date:	Date:

Borrower Name:	Borrower Name:
Signature:	Signature:
Date:	Date:

QUALIFYING INCOME CHARTS