

NOTICE TO MORTGAGOR OF POTENTIAL FEDERAL RECAPTURE TAX ON SALE OF HOME

(To be completed by Mortgage Lender)

THIS NOTICE APPLIES ONLY TO MORTGAGE LOANS CLOSED ON OR AFTER JANUARY 1, 1991.

This notice is intended to inform you of potential federal recapture tax on certain sales or other dispositions of your residence. The tax is payable only if you dispose of your residence. There is no tax if you realize no gain on the disposition of your residence or if your income does not increase above specified levels.

If you dispose of your residence within nine years of the date the mortgage loan is made, you may be required to pay to the United States a recapture amount of up to 6.25 percent of the original principal amount of the mortgage loan. Your maximum recapture amount is \$_____ (i.e., 6.25 percent of \$_____.) The recapture amount is payable with your income tax for the year during which you dispose of your residence by sale, exchange or gift.

The recapture amount (which may be reduced as described below depending upon your family income) is the maximum recapture amount described above multiplied by the holding period percentage. The holding period of percentage during the first and following years after making your loan is as follows:

1st	20%	6th	80%
2nd	40%	7th	60%
3rd	60%	8th	40%
4th	80%	9th	20%
5th	100%		

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.

The recapture amount calculated above 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 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 for each category of family size of the nine-year recapture period is detailed on the attached chart.

If your family's modified adjusted gross income does not exceed the applicable adjusted qualifying income listed above, 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.

The recapture amount is payable if you dispose of your residence and cannot exceed 50 percent of the gain you realize on the disposition of your residence. If you dispose of your residence other than by sale, you are treated as if you sold your residence for its fair market value. However, the recapture amount is not payable if the disposition is (1) by reason of death; (2) the result of the complete or partial destruction of your residence by fire, storm or other casualty and your residence is repaired or replaced on the same site within certain time limits; (3) a transfer to a spouse, including a qualifying transfer to a former spouse which is incident to a divorce and you have no gain or loss included in your income under Section 1041 of the Internal Revenue Code; (4) later than nine years after the date the mortgage loan is made; or (5) at a loss.

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

Received and Acknowledged

Authorized Officer of the Mortgage Lender

By: _____
Mortgagor

By: _____
Mortgagor

Date: _____