

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

A. INTRODUCTION.

1. GENERAL. When you sell your home you may have to pay a recapture tax as calculated below. The recapture tax may also apply if you dispose of your home in some other way. Any references in this notice to the "sale" of your home, also includes other ways of disposing of your home. For instance you may owe the recapture tax if you give your home to a relative.
2. EXCEPTIONS. In the following situations, no recapture tax is due and you do not need to do the calculations:
 - a) You dispose of your home later than nine years after you close your mortgage loan;
 - b) Your home is disposed of as a result of your death;
 - c) You transfer your home either to your spouse or to your former spouse incident to divorce and you have no gain or loss included in your income under section 1041 of the Internal Revenue Code; or
 - d) You dispose of your home at a loss.

B. MAXIMUM RECAPTURE TAX. The maximum recapture tax that you may be required to pay as an addition to your federal income tax is _____. This amount is 6.25% of the highest principal amount of your mortgage loan and is federally subsidized amount with respect to the loan.

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

1. (the MAXIMUM RECAPTURE TAX, as described in paragraph B above),
2. The HOLDING PERIOD PERCENTAGE as listed in Column 1, in the Table and
3. The INCOME PERCENTAGE, as described in paragraph D below.

D. INCOME PERCENTAGE. You calculate the income percentage as follows:

1. SUBTRACT the applicable ADJUSTED QUALIFYING INCOME in the taxable year in which you sell your home, as listed in Column 2 in the Table, FROM your MODIFIED ADJUSTED GROSS INCOME in the taxable year in which you sell your home.

Your modified adjusted gross income means your adjusted gross income shown on your federal income tax return for the taxable year in which you sell your home, with the following two adjustments: (a) your adjusted gross income must be INCREASED by the amount of any interest that you receive or accrue in the taxable year from tax-exempt bonds that is excluded from your gross income (under section 103 of the Internal Revenue Code); and (b) your adjusted gross income must be DECREASED by the amount of any gain included in your gross income by reason of the sale of your home.

2. If the amount calculated in (1) above is zero or less you owe no recapture tax and do not need to make any more calculations. If it is \$5,000 or more, your income percentage is 100%. If it is greater than zero but less than \$5,000, it must be divided by \$5,000. This fraction is expressed as a percentage, represents your income percentage. For example if the fraction is \$1,000/\$5,000 your income percentage is 20%.

E. LIMITATIONS AND SPECIAL RULES ON RECAPTURE TAX

1. If you give away your home (other than to your spouse or ex-spouse incident to divorce), you must determine your actual recapture tax as if you sold your home for its fair market value.
2. If your house is destroyed by fire, storm, flood, or other casualty, there generally is no recapture tax if, within two years, you purchase additional property for use as your principal residence on the site of the home financed with your original subsidized mortgage loan.
3. In general, except as provided in future regulations, if two or more persons own a home and are jointly liable for the subsidized mortgage loan, the actual recapture tax is determined separately for them based on their interest in the home.
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 the special rule in section 143 (m) (4) (C) (ii) of the Internal Revenue Code.
5. Other special rules may apply in particular circumstances. You may wish to consult with a tax advisor or the local office of the Internal Revenue Service when you sell or otherwise dispose of your home to determine the amount, if any, of your actual recapture tax. See section 143 (m), of the Internal Revenue Code generally.

RECAPTURE TAX EXHIBIT

Single Family
2008 X – MBS Program

6/2008

County: Bernalillo
Borrower Name: John Doe
Loan Number: 99999

	Holding Period Percentage	Adjusted Qualifying Income #of family members living in your home at time of sale	Adjusted Qualifying Income #of family members living at our home at the time of sale
		2 or less	3 or more
Before the first anniversary of closing*	20%	58,200.00	66,930.00
On or after the first anniversary of closing But before the second anniversary of closing*	40%	61,110.00	70,276.50
On or after the second anniversary of closing But before the third anniversary of closing*	60%	64,165.50	73,790.33
On or after the third anniversary of closing but before the fourth anniversary of closing*	80%	67,373.78	77,479.84
On or after the fourth anniversary of closing but before the fifth anniversary of closing*	100%	70,742.46	81,353.83
On or after the fifth anniversary of closing but before the sixth anniversary of closing*	80%	74,279.59	85,421.53
On or after the sixth anniversary of closing but before the seventh anniversary of closing*	60%	77,993.57	89,692.60
On or after the seventh anniversary of closing but before the eighth anniversary of closing*	40%	81,893.24	94,177.23
On or after the eighth anniversary of closing but before the ninth anniversary of closing*	20%	85,987.91	98,886.09

* Note: Closing means the closing of your loan.

EXAMPLE OF HOW TO COMPUTE RECAPTURE AMOUNT

The following example was prepared using a report produced by the United States General Accounting Office, modifying an example contained in that report to reflect simplification provisions contained in the Omnibus Budget Reconciliation Act of 1990.

The report, dated September 1990 and entitled Homeownership- Limiting Mortgage Assistance Provided to Owners With High-Income Growth is available free by requesting publication GAO/RCED- 90-117 from:

U. S. General Accounting Office
P.O. Box 6015
Gaithersburg, MD 20877
(202) 275-6241

J, a single individual, purchases a home with a \$55,000 Mortgage Revenue Bond ("MRB") loan. At the time of purchase, the applicable income limit for small families (2 or less persons) is \$20,000 and for large families (3 or more persons) is \$23,000. He marries S, and they have two children, E and M. They sell their MRB assisted home 6 years and 2 months later realize a gain of \$12,000 on the sale of the home. In the year of the sale, J and S's household income (adjusted gross income plus tax-exempt interest) is \$32,000.00

Threshold Income: $\$23,000 \times (1.05) = 30,822.20^6 = \$30,822.20$

Holding Period Percentage 60% (.6)
(from Table)

Maximum Recapture: $\$55,000 \times .0625 \times .6 = 2,062.50$

Income Adjustment $(\$32,000.00 - 30,822.20) / 5000 = .23556$
If Income Adjustment Calculation <1, Recapture equals
Income Adjustment X Maximum Recapture

Adjusted Recapture: $\$2,062.50 \times .23556 = 485.84$

Recapture equals the lesser of Adjusted Recapture (\$485.84), Maximum Recapture (\$2,062.50), or one-half the gain on the house (\$6,000).