

Summary of Recapture Tax Requirements

Federal tax law may require you to file an IRS form and/or to pay a recapture tax at the time of resale or transfer of your residence if you dispose of it within nine years of your loan closing. This recapture tax is calculated as follows:

STEP 1: To determine the maximum recapture tax, multiply 6.25% times the original loan amount or, in the case of an assumption, the amount assumed.

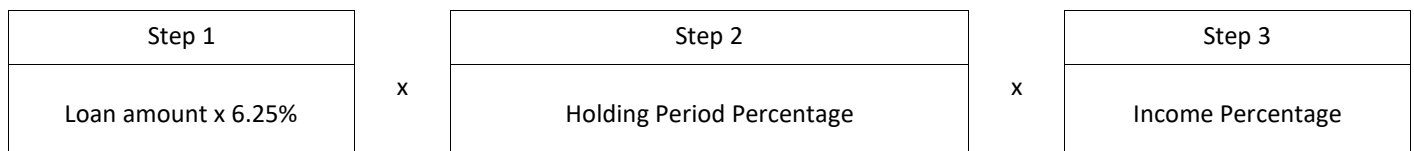
STEP 2: The maximum recapture amount is then multiplied by the following applicable Holding Period Percentage:

No. of full years between the original purchase and the resale or transfer	Holding Period Percentage
Prior to end of 1 st full year	20%
1 year	40%
2 years	60%
3 years	80%
4 years	100%
5 years	80%
6 years	60%
7 years	40%
8 years	20%
9 years	0%

STEP 3: No recapture tax will be payable if your modified adjusted gross income [MAGI] (adjusted gross income as shown on IRS Form 1040, plus tax-exempt interest, less gain on the resale or transfer of residence) at the time of resale or transfer does not exceed the applicable Adjusted Qualifying Income shown on the attached Table. NOTE: You must use your household size at time of resale or transfer.

If your MAGI at the time of resale or transfer exceeds the Adjusted Qualifying Income on the Table, you are subject to the recapture tax. If your MAGI exceeds the Adjusted Qualifying Income by \$5,000 or more, you must pay 100% of the recapture tax. If your MAGI exceeds the Adjusted Qualifying Income by less than \$5,000, you must pay a lower percentage of the recapture tax; this percentage is calculated by dividing the amount of the excess by \$5,000 (for example, if your MAGI is \$1,000 in excess of the Adjusted Qualifying Income, then you pay 20% of the recapture tax - i.e. \$1,000 divided by \$5,000 = 20%). This is called the "Income Percentage."

The above calculation can be shown as follows:



Recapture is limited to 50% of the gain on the resale or transfer. Gain on the resale of your residence is generally the sales price (reduced by selling expenses) minus the costs paid by you to purchase the residence and to make any improvements to it. In addition, no recapture is due if the transfer is by reason of death. Please consult a tax advisor or the IRS on filing the IRS form, computation of gain and/or further questions or details.