

Lender - Please tear off this top sheet and give it to the applicant at application time

**More House 4 Less
Maryland Mortgage Program
Recapture Tax Reimbursement**

Federal law provides for a possible Recapture Tax when some homeowners sell their home within the first nine years after receiving a mortgage through the Community Development Administration's (CDA) Maryland Mortgage Program. In order to remove the confusion and worry about having to pay a recapture tax when the home is sold -- CDA agrees to reimburse any CDA homebuyer, who settles on their home on or after July 1, 2005, the amount of any recapture tax that the CDA homebuyer pays in connection with the sale of the home.

CDA will not calculate the recapture amount. Upon sale or disposition of the residence, the borrower(s) must consult a personal tax adviser or the IRS.

In order to request a recapture tax reimbursement from CDA:

- The borrower(s) first must instruct the IRS, by using IRS Form 4506, to send to CDA a copy of each borrower's federal tax return covering the calendar year in which the residence was sold.
 - On Form 4506, instruct the IRS to send the information to:
Maryland DHCD
Attention: CDA Single Family - Recapture Tax Reimbursement
100 Community Place, 4th Floor
Crownsville, Maryland 21032
410-514-7530
- The borrower(s) must send a written request for reimbursement to CDA, by July 15th of the calendar year after the residence is sold, accompanied by the following:
 - a copy of the signed HUD-1 Settlement Statement from the sale or disposition of the property;
 - the address to which the reimbursement should be mailed; and,
 - any other documentation CDA may need to approve the reimbursement
 - Submit requests for reimbursement to:
Maryland DHCD
Attn: CDA Single Family - Recapture Tax Reimbursement
100 Community Place, 4th Floor
Crownsville, Maryland 21032
- CDA will not act on the request for reimbursement until the copies of the borrower(s) tax returns are received from the IRS.

CDA will only reimburse the Recapture Amount actually paid, but will not reimburse fees, interest, expenses or penalties incurred.

Be advised that CDA will issue an IRS Form 1099 so the amount of any recapture tax that CDA reimburses to the borrower will be reported to the IRS as income.

NOTICE TO BORROWER WITH INFORMATION FOR CALCULATING POTENTIAL RECAPTURE TAX begins on the next page.

**NOTICE TO BORROWER WITH INFORMATION
FOR CALCULATING POTENTIAL RECAPTURE TAX**

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. If you sell or otherwise dispose of your home during the next nine years, this benefit may be “recaptured.” The 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 your home at a gain and if your income increases above specified levels. The recapture tax payment must be accompanied by a signed Internal Revenue Service Form 8828 (Recapture of Federal Mortgage Subsidy) which is to be attached to your Form 1040 for the year in which you sell your home. See the Form 1040 and Form 8828 Instructions.

You may wish to consult a tax advisor or the local office of the Internal Revenue Service at the time you sell your home to determine the amount, if any, of the recapture tax. Along with this notice, you are being given additional information that will be needed to calculate the recapture tax.

I. 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 an amount equal to 6.25% of (.0625 multiplied by) the highest principal amount of your mortgage loan, generally the amount of the mortgage loan on the date of settlement. This is your 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 the 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 three 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 found in Section II of this document; and
3. The income percentage, as described in paragraph D below.

D. **Income Percentage.** First locate the Table that applies to your loan and then calculate the income percentage as follows:

1. Subtract the adjusted qualifying income applicable in the taxable year in which you sell your home, as listed in Column 2 in the Table identified above, 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 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 (i) 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, expressed as a percentage, represents your income percentage. For example, if the fraction is \$1,000/\$5,000, your income percentage is 20%.

II. TABLES OF ADJUSTED QUALIFYING INCOME

TABLE 1

Targeted Jurisdictions Excluding Washington, D.C. MSA

(Using State Median Income)

Allegany County; Anne Arundel County, Census Tract 740105; Baltimore City; Baltimore County, East Towson, Oella, West Catonsville, and Census Tracts 401602, 421300, 450504, 450800, 490605 and 491401; Caroline County; Dorchester County; Garrett County; Harford County, Census Tract 302901; Kent County; Somerset County; Washington County, the City of Hagerstown and any portions of census tracts 000302, 000400, 000700, and 000900 outside of the City of Hagerstown; Wicomico County, Census Tracts 000100, 000300, 000500 and 010200; Worcester County, Census Tract 990300.

Date that you sell your home	(Column 1) Holding Period Percentage	(Column 2) Adjusted Qualifying Income	
		Number of Family Members Living In Your Home at the Time of Sale	
		2 or Less	3 or More
Before the first anniversary of closing	20%	102,600*	119,700*
On or after the first anniversary of closing, but before the second anniversary of closing	40%	107,730	125,685
On or after the second anniversary of closing but before the third anniversary of closing	60%	113,117	131,969
On or after the third anniversary of closing but before the fourth anniversary of closing	80%	118,772	138,568
On or after the fourth anniversary of closing but before the fifth anniversary of closing	100%	124,711	145,496
On or after the fifth anniversary of closing, but before the sixth anniversary of closing	80%	130,946	152,771
On or after the sixth anniversary of closing but before the seventh anniversary of closing	60%	137,494	160,409
On or after the seventh anniversary of closing but before the eighth anniversary of closing	40%	144,369	168,430
On or after the eighth anniversary of closing but before the ninth anniversary of closing	20%	151,587	176,851

*State median income of 85,500 times 120% and 140%.

TABLE 2

Non-Targeted Jurisdictions Excluding Baltimore-Towson MSA and Washington, D.C. PMSA

(Using State Median Income)

Washington County (excluding the City of Hagerstown and any portions of census tracts 000302, 000400, 000700, and 000900 outside of the City of Hagerstown); Wicomico County (excluding Census Tracts 000100, 000300, 000500 and 010200); Worcester County (excluding Census Tract 990300).

Date that you sell your home	(Column 1) Holding Period Percentage	(Column 2) Adjusted Qualifying Income	
		Number of Family Members Living in Your Home at the Time of Sale	
		2 or Less	3 or More
Before the first anniversary of closing	20%	85,500*	98,325*
On or after the first anniversary of closing, but before the second anniversary of closing	40%	89,775	103,241
On or after the second anniversary of closing but before the third anniversary of closing	60%	94,264	108,403
On or after the third anniversary of closing but before the fourth anniversary of closing	80%	98,977	113,823
On or after the fourth anniversary of closing but before the fifth anniversary of closing	100%	103,926	119,515
On or after the fifth anniversary of closing, but before the sixth anniversary of closing	80%	109,122	125,490
On or after the sixth anniversary of closing but before the seventh anniversary of closing	60%	114,578	131,765
On or after the seventh anniversary of closing but before the eighth anniversary of closing	40%	120,307	138,353
On or after the eighth anniversary of closing but before the ninth anniversary of closing	20%	126,322	145,271

*State median income of 85,500 times 100% and 115%.

TABLE 3

Non-Targeted Jurisdictions Excluding Baltimore-Towson MSA and Washington, D.C. PMSA

(Using County AMI)

St. Mary's County

Date that you sell your home	(Column 1) Holding Period Percentage	(Column 2) Adjusted Qualifying Income	
		Number of Family Members Living in Your Home at the Time of Sale	
		2 or Less	3 or More
Before the first anniversary of closing	20%	85,600*	98,440*
On or after the first anniversary of closing, but before the second anniversary of closing	40%	89,880	103,362
On or after the second anniversary of closing but before the third anniversary of closing	60%	94,374	108,530
On or after the third anniversary of closing but before the fourth anniversary of closing	80%	99,093	113,957
On or after the fourth anniversary of closing but before the fifth anniversary of closing	100%	104,047	119,654
On or after the fifth anniversary of closing, but before the sixth anniversary of closing	80%	109,250	125,637
On or after the sixth anniversary of closing but before the seventh anniversary of closing	60%	114,712	131,919
On or after the seventh anniversary of closing but before the eighth anniversary of closing	40%	120,448	138,515
On or after the eighth anniversary of closing but before the ninth anniversary of closing	20%	126,470	145,441

* HUD's Rounded FY 2009 MFI Estimate for St. Mary's County, MD of 85,600 times 100% and 115%.

TABLE 4

Targeted Jurisdictions in Washington, DC MSA

(Using County AMI)

In Frederick County, Census Tracts 750100 and 750300; Prince George’s County, Brentwood, Capitol Heights, Colmar Manor, Fairmont Heights, Mount Rainier, North Brentwood, Seat Pleasant, and Census Tracts 803200, 803401, 803509, 804300, 804800, 805601 and 805602.

Date that you sell your home	(Column 1) Holding Period Percentage	(Column 2) Adjusted Qualifying Income	
		Number of Family Members Living in Your Home at the Time of Sale	
		2 or Less	3 or More
Before the first anniversary of closing	20%	123,240*	143,780*
On or after the first anniversary of closing, but before the second anniversary of closing	40%	129,402	150,969
On or after the second anniversary of closing but before the third anniversary of closing	60%	135,872	158,517
On or after the third anniversary of closing but before the fourth anniversary of closing	80%	142,666	166,443
On or after the fourth anniversary of closing but before the fifth anniversary of closing	100%	149,799	174,765
On or after the fifth anniversary of closing, but before the sixth anniversary of closing	80%	157,289	183,504
On or after the sixth anniversary of closing but before the seventh anniversary of closing	60%	165,153	192,679
On or after the seventh anniversary of closing but before the eighth anniversary of closing	40%	173,411	202,313
On or after the eighth anniversary of closing but before the ninth anniversary of closing	20%	182,082	212,429

* Washington MSA median income of 102,700 times 120% and 140%.

TABLE 5

Non-Targeted Jurisdictions in Washington, D.C. MSA

(Using High Housing Cost Area Adjustment)

Calvert County; Charles County; Frederick County (excluding Census Tracts 750100 and 750300); Montgomery County; Prince George’s County (excluding Brentwood; Capitol Heights; Colmar Manor; Fairmont Heights; Mount Rainier; North Brentwood; Seat Pleasant; and Census Tracts 803200, 803401, 803509, 804300, 804800, 805601, and 805602).

Date that you sell your home	(Column 1) Holding Period Percentage	(Column 2) Adjusted Qualifying Income	
		Number of Family Members Living in Your Home at the Time of Sale	
		2 or Less	3 or More
Before the first anniversary of closing	20%	123,240*	141,726*
On or after the first anniversary of closing, but before the second anniversary of closing	40%	129,402	148,812
On or after the second anniversary of closing but before the third anniversary of closing	60%	135,872	156,253
On or after the third anniversary of closing but before the fourth anniversary of closing	80%	142,666	164,066
On or after the fourth anniversary of closing but before the fifth anniversary of closing	100%	149,799	172,269
On or after the fifth anniversary of closing, but before the sixth anniversary of closing	80%	157,289	180,882
On or after the sixth anniversary of closing but before the seventh anniversary of closing	60%	165,153	189,926
On or after the seventh anniversary of closing but before the eighth anniversary of closing	40%	173,411	199,423
On or after the eighth anniversary of closing but before the ninth anniversary of closing	20%	182,082	209,394

* Includes “high housing cost area” adjustment of 123,240 times 100% and 115%.

TABLE 6

Non-Targeted Jurisdictions in Baltimore-Towson MSA

(Using High Housing Cost Area Adjustment)

Anne Arundel County (excluding Census Tract 740105); Baltimore County (excluding East Towson; Oella; West Catonsville; and Census Tracts 401602, 421300, 450504, 450800, 490605 and 491401); Carroll County; Harford County (excluding Census Tract 302901); Howard County; Queen Anne’s County.

Date that you sell your home	(Column 1) Holding Period Percentage	(Column 2) Adjusted Qualifying Income	
		Number of Family Members Living in Your Home at the Time of Sale	
		2 or Less	3 or More
Before the first anniversary of closing	20%	98,520*	113,298*
On or after the first anniversary of closing, but before the second anniversary of closing	40%	103,446	118,963
On or after the second anniversary of closing but before the third anniversary of closing	60%	108,618	124,911
On or after the third anniversary of closing but before the fourth anniversary of closing	80%	114,049	131,157
On or after the fourth anniversary of closing but before the fifth anniversary of closing	100%	119,752	137,714
On or after the fifth anniversary of closing, but before the sixth anniversary of closing	80%	125,739	144,600
On or after the sixth anniversary of closing but before the seventh anniversary of closing	60%	132,026	151,830
On or after the seventh anniversary of closing but before the eighth anniversary of closing	40%	138,628	159,422
On or after the eighth anniversary of closing but before the ninth anniversary of closing	20%	145,559	167,393

*Includes “high housing cost area” adjustment of 98,520 times 100% and 115%.

TABLE 7

Non-Targeted Jurisdictions Excluding Baltimore-Towson MSA and Washington, D.C. PMSA

(Using High Housing Cost Area Adjustment)

Cecil County.

Date that you sell your home	(Column 1) Holding Period Percentage	(Column 2) Adjusted Qualifying Income	
		Number of Family Members Living in Your Home at the Time of Sale	
		2 or Less	3 or More
Before the first anniversary of closing	20%	90,389*	103,947*
On or after the first anniversary of closing, but before the second anniversary of closing	40%	94,908	109,145
On or after the second anniversary of closing but before the third anniversary of closing	60%	99,654	114,602
On or after the third anniversary of closing but before the fourth anniversary of closing	80%	104,637	120,332
On or after the fourth anniversary of closing but before the fifth anniversary of closing	100%	109,868	126,349
On or after the fifth anniversary of closing, but before the sixth anniversary of closing	80%	115,362	132,666
On or after the sixth anniversary of closing but before the seventh anniversary of closing	60%	121,130	139,299
On or after the seventh anniversary of closing but before the eighth anniversary of closing	40%	127,186	146,264
On or after the eighth anniversary of closing but before the ninth anniversary of closing	20%	133,546	153,578

*Includes "high housing cost area" adjustment of 90,389 times 100% and 115%.

TABLE 8

Non-Targeted Jurisdictions Excluding Baltimore-Towson MSA and Washington, D.C. PMSA

(Using High Housing Cost Area Adjustment)

Talbot County.

Date that you sell your home	(Column 1) Holding Period Percentage	(Column 2) Adjusted Qualifying Income	
		Number of Family Members Living in Your Home at the Time of Sale	
		2 or Less	3 or More
Before the first anniversary of closing	20%	87,960*	101,154*
On or after the first anniversary of closing, but before the second anniversary of closing	40%	92,358	106,212
On or after the second anniversary of closing but before the third anniversary of closing	60%	96,976	111,522
On or after the third anniversary of closing but before the fourth anniversary of closing	80%	101,825	117,098
On or after the fourth anniversary of closing but before the fifth anniversary of closing	100%	106,916	122,953
On or after the fifth anniversary of closing, but before the sixth anniversary of closing	80%	112,262	129,101
On or after the sixth anniversary of closing but before the seventh anniversary of closing	60%	117,875	135,556
On or after the seventh anniversary of closing but before the eighth anniversary of closing	40%	123,769	142,334
On or after the eighth anniversary of closing but before the ninth anniversary of closing	20%	129,957	149,451

*Includes "high housing cost area" adjustment of 87,960 times 100% and 115%.

III. LIMITATIONS AND SPECIAL RULES ON RECAPTURE TAX

A. 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 had sold your home for its fair market value.

B. If your home 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.

C. 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 interests in the loan.

D. 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.

E. 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.

Received and acknowledged this ____ day of _____, 20__.

Borrower

Borrower