

NOTICE OF POTENTIAL RECAPTURE TAX

(TO BE DELIVERED TO APPLICANT AT THE TIME OF APPLICATION FOR MORTGAGE LOAN)

APPLICATION DOCUMENT

INSTRUCTIONS TO LENDER:

- **SIGNED BY BORROWER.**
- **Copy to the Borrower.**
- **Submit ORIGINAL SIGNED document with the MBS Pre-Closing Compliance package to HOC.**

The Internal Revenue Code imposes a special “recapture tax” on certain individuals who obtain a mortgage loan financed with proceeds of a tax-exempt qualified mortgage bond. Because you have applied for a Mortgage Loan financed by the proceeds of bonds issued by the Housing Opportunities Commission of Montgomery County, Maryland (the “Commission”), you may be subject to this special “recapture tax” for federal income tax purposes, which would be imposed at the time of the future resale by you of the residence financed by the Mortgage Loan. This potential tax, which is not imposed until you sell your residence, is based upon the concept that because the Commission’s bonds are tax-exempt, the Federal Government has enabled you to take advantage of this tax exemption through a lower interest rate on your Mortgage Loan. The amount of the tax increases for the first five years that you own the residence (not to exceed, in the fifth year, 6.25% of the original principal balance of the Mortgage), and reduces thereafter. No tax is imposed if you continue to hold your residence for a total of 9 years or more. The obligation to pay any recapture tax is a federal requirement and is in addition to and independent of any other obligations imposed by Montgomery County.

There are numerous factors taken into account in computing the amount of tax imposed at the time of sale of your residence, including the original principal amount of the mortgage, the number of years that pass before you sell the residence, the median family income for your area today, and your adjusted gross income and the number of members in your family at the time of sale of the residence. You should consult your tax advisor at the time of sale of the residence to determine the amount, if any, of such “recapture tax.” The computation of the recapture tax is complex. You will be provided at closing of the Mortgage Loan with certain additional information that will be needed to calculate the amount, if any, of the recapture tax.

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

Applicant

Applicant