

**CAPITAL AREA FINANCE AUTHORITY
SINGLE FAMILY MORTGAGE REVENUE BONDS
SERIES 2023
EIN 72-1013030**

NOTICE TO BUYERS/AUTHORIZATION NOTICE OF POTENTIAL RECAPTURE

This mortgage loan is funded from the proceeds of a tax-exempt single family mortgage revenue bond of the Capital Area Finance Authority (the "Issuer"), therefore, the Mortgagor(s) is(are) receiving the benefits of a lower interest rate, other cash costs and/or down payment assistance than is available with other mortgage loans. If the Mortgagor(s) sell or otherwise dispose of the residence during the next 9 years, this benefit may be "recaptured". Such recapture is accomplished by an increase in the Mortgagor(s) federal income tax for the year in which the residence is sold or disposed. This recapture only applies if there is a gain resulting from the sale or disposition of the residence and the total annual household income increases above specified levels. You may wish to consult a tax advisor or the Internal Revenue Service at the time of sale or disposition of the residence to determine the amount, if any, of the recapture tax. Following loan closing, you will be provided additional information that will be needed to calculate the maximum recapture tax liability at the time you sell or dispose of the residence.

Your home is being financed with a mortgage made available with the assistance of the Issuer. This mortgage is made with benefits not available with other mortgage loans. Because of this, your mortgage provides that you cannot rent your home without the Mortgage Servicer's prior written consent (which consent can only be given in very limited, extreme circumstances) or sell your home to a person ineligible for assistance from the Issuer, unless you pay your loan in full.

In order for the loan to be assumed, you must sell your home to a person eligible for assistance from the Issuer, otherwise, you must pay your loan in full or the Issuer may demand immediate full repayment of the loan. This could result in foreclosure of your mortgage and repossession of the property. In addition, if you rent the property or committed fraud or intentionally misrepresented yourself when you applied for the loan, the Lender may foreclose your mortgage and repossess the property. If the Lender takes your home through a foreclosure of the mortgage because of these reasons, HUD, FHA, VA, USDA, the Servicer and/or the Issuer (as applicable) will not be able to help you.

In order for the mortgage to be assumed, you must sell your home at or below the federally-designated maximum sales price in effect when you sell your home.

If the money received from the foreclosure sale is not enough to pay the remaining amount of money you owe on the loan, the Servicer may obtain a deficiency judgment against you (a court ruling that you must pay whatever money is still owed on the loan after the foreclosure sale). Such judgment will be taken over by HUD, FHA, VA, USDA or a private mortgage insurer (as applicable). If the Servicer files an insurance claim against HUD, FHA, VA, USDA or the private mortgage insurer (as applicable) because of the foreclosure, HUD, FHA, VA, USDA or the private mortgage insurer (as applicable) may then bring an action against you to collect the judgment.

NOTICE TO SECOND MORTGAGE BUYERS

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I/We have applied to the Capital Area Finance Authority (the "Issuer") for a down payment assistance loan in the amount set forth above under an Issuer's Second Mortgage Loan to be used for the down payment owed or closing costs incurred by me/us in connection with my/our purchase of the property described above (the "Property"). I/We understand that the Second Mortgage Loan cannot be assumed by any person acquiring the Property from me/us.

DISCLOSURE OF MORTGAGOR INFORMATION

The Mortgagor(s) hereby consent and agree that all information furnished by the Mortgagor(s) to the participating Lender, the Master Servicer, the Program Administrator and the Issuer, including but not limited to, non-public personal and financial information (the "Information"), in connection with the application for mortgage loan(s) under this program, may be disclosed to any person or other third parties in connection with the processing of the Mortgagor(s) loan application, verification of information concerning the loan or the Mortgagor(s), and for any other purpose in furtherance of or connected with the Issuer's program.

BORROWER AUTHORIZATION FOR COUNSELING

If I fail to make any monthly mortgage payment as agreed, I understand that the servicer of my mortgage loan may refer me to a third-party counseling organization or a mortgage insurer that will advise me about finding ways to meet my mortgage obligation. I hereby authorize the servicer to release certain information related to the servicer's own experience with me to such third-party counseling organization or mortgage insurer, and request that the counseling party contact me. I further hereby authorize the third-party counseling organization or mortgage insurer to make a recommendation about appropriate action to take with regard to my mortgage loan, which may assist the servicer in determining whether to restructure my loan or to offer other extraordinary services that could preserve my long-term home ownership.

I/We have read and understand all the Notices and the Authorization shown above.

_____ Applicant Name	_____ Applicant Type	_____ Signature	_____ Date
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_____ Applicant Name	_____ Applicant Type	_____ Signature	_____ Date
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_____ Applicant Name	_____ Applicant Type	_____ Signature	_____ Date
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ABOUT RECAPTURE TAX

When you receive a first-time homebuyer loan, you are receiving the benefit of a lower mortgage interest rate than is customarily available on other mortgage loans. The state or local government appointed agency (the “Issuer”) has sold tax-exempt mortgage revenue bonds to a private investor who receives a lower interest rate on their investment than is customarily available on other investments. The investor buys the bonds because the interest earned is tax-exempt. Because the investor does not pay tax on the interest earned on the bonds, the federal government considers this lost tax revenue. Tax-exempt means that the IRS (Internal Revenue Service) Code governs the program. Congress mandated recapturing some of the losses when a homebuyer who has received a first-time homebuyer loan in this program sells their home in the first full nine years of ownership and is fortunate enough to have substantial increases in income and appreciation of the value of their home.

YOU MAY HAVE TO PAY RECAPTURE TAX IF

- You sell your home in the first 108 months that you own it, you make a profit and have substantial increases in income.
- You give your home away.

YOU MAY NOT HAVE TO PAY RECAPTURE TAX IF

- Your home is destroyed by fire, storm, flood or other casualty, there is generally no recapture tax if within two years you build or rehab for use as your principal residence on the site of the home financed with your original subsidized mortgage loan.

YOU ARE NOT SUBJECT TO THE RECAPTURE TAX IF

- You sell or give away or dispose of your home later than 108 months after you close your mortgage loan.
- Your home is disposed of as a result of your death.
- You transfer your home to your spouse or your former spouse as an agreement of your divorce and you have no gain or loss included in your income as a result of the transfer.

MAXIMUM RECAPTURE TAX

The most that you will ever be required to pay when you sell your home in the first 108 months is 6.25% of the highest principal amount of the mortgage loan, including any second lien mortgage loan, during the life of the loan. (*i.e.*, If the highest loan amount during the course of the loan was \$50,000 and you sold in the 49-60 months of ownership, then multiply \$50,000 x .0625 and the total you would pay would be \$3,125.) This amount is considered to be the federally subsidized amount. **When** you sell your home is as important as the amount you receive for the sale of your home and your income at the time you sell. Notwithstanding the foregoing, the recapture amount cannot exceed 50% of the gain realized on the sale of your house.

ACTUAL RECAPTURE TAX

The actual recapture tax, if any, can only be determined when you sell your home.

DETAILED INFORMATION

Contact the IRS and request Form 8828 and the instructions for Form 8828 (both available on the IRS Website: www.irs.ustreas.gov . Review the form and instructions now. Consult your tax advisor. In the year that you sell your home, you are required to complete Form 8828 and submit it with your federal income tax return. The income that will be considered in that year will be your modified adjusted gross income from your federal income tax return.

After you close your loan, you will receive a detailed Notice from the Program Administrator or your lender. This letter should be kept with your other mortgage documents. It contains extremely important information that you will need to determine if you must pay recapture tax.

The letter contains information that you'll need in order to complete Form 8828 such as

- The loan amount (the highest principal amount of the loan),
- Closing Date,
- Name of the Issuer of the Bonds,
- Name of the lender that originally made the loan, and
- Chart that details data necessary to complete the computations on Form 8828.

Remember you will **not** pay Recapture Tax unless ALL THREE of the following are true --

- You sell your home in the first full nine years (108 months) of ownership (from the closing date)
AND
- You make a net profit on the sale of your home AND
- Your modified adjusted gross income exceeds the income limit for the year you sell your home.

What does “net profit” on the sale of your home mean?

Consult your tax advisor but generally you will be considering the amount you received for the sale of your home and deducting the expenses of selling your home (i.e. commission paid to a real estate agent, advertising, legal fees, etc.). This is the “Amount Realized” from the sale of the home. From the “Amount Realized” you will subtract your “Adjusted Basis” of your interest in the home. The “Adjusted Basis” will be increased by any sales commission you paid when you bought the home and decreased by depreciation. Your tax advisor will be helpful in determining the exact amount. If the total of the “Amount Realized” minus the “Adjusted Basis” is “0” or lower, you did not realize a gain (make a profit) when you sold the home and you DO NOT owe recapture tax. You will still need to complete a form 8828 and send it to the IRS with your federal income tax return.

What about my income?

If you did make a profit, then you may have to pay recapture. Now you must consider your income. There will be a chart on the letter you receive after closing that shows the maximum income allowable for each 12-month period following closing. The limits are the program limits for the first 12 months and then 5% more than the preceding year for each year thereafter. If your modified adjusted gross income on your federal income tax return does not exceed the income limit for the 12-month period in which you sell your home, you DO NOT owe recapture tax. If your modified adjusted gross income does exceed the income limit, you DO owe recapture tax.

How much do I owe?

The amount you owe will be the LESSER of 50% of the gain realized from the sale of your home OR the amount resulting from a calculation that uses—

- The income percentage (Consider the amount by which your income exceeds the limit in the year that you sell. If the amount is \$5,000 or more, then your income percentage is 100%. If less than \$5,000 then divide the amount by which your income exceeds the limit by \$5,000 and round to the nearest whole percentage.)
- The maximum recapture tax or federally subsidized amount (this is $.0625 \times$ the highest principal amount of your loan).
- The holding period percentage as shown on the chart below:

Disposition Within # Months of Closing	Holding Period Percentage	Income 1-2 Person HH	Income 3 + Person HH
1 – 12	20%	\$Amt Shown =	Program Limit
13 – 24	40%		
25 – 36	60%		
37 – 48	80%		
49 – 60	100%		
61 – 72	80%		
73 – 84	60%		
85 – 96	40%		
97 – 108	20%		
109 or More	No Recapture Tax		

The dollar amount shown for 1-12 months represents the program limits. Income will be shown on the actual Notice provided following loan closing.