

Minneapolis/Saint Paul Housing Finance Board
Single Family Mortgage Revenue Bonds
(GNMA and Fannie Mae Mortgage-Backed Securities Program - CityLiving Home Programs)
Series 2004A-1

NOTICE OF SUBSIDY RECAPTURE

(Note: This form is subject to change upon any change in HUD Median Income)

Use this form for Loans other than Targeted Area Loans

THIS NOTICE CONTAINS INFORMATION ABOUT POSSIBLE FUTURE TAX LIABILITY. THE MORTGAGOR IS ADVISED TO SEEK FEDERAL INCOME TAX ADVICE AT THE TIME THE HOME IS SOLD OR DISPOSED OF. THE RECAPTURE TAX ONLY APPLIES TO MORTGAGE LOANS CLOSED AFTER DECEMBER 31, 1990.

Your mortgage Loan has been financed with the proceeds of a tax-exempt qualified mortgage bond. As a result, pursuant to Section 143(m) of the Internal Revenue Code of 1986 (the "Code"), you may, at the time of resale by you of the residence financed by the Mortgage Loan, be subject to a special "recapture tax" for federal income tax purposes. You should consult your tax advisor at the time of resale by you of the residence to determine the amount, if any, of such "recapture tax".

A. Introduction

1. General When you sell your home you may have to pay 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 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 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 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:

(i) \$_____ (the maximum recapture tax, as described in paragraph B above).

(ii) The holding period percentage, as listed in Column 1 in the Table, and

(iii) The income percentage, as described in paragraph D below.

D. Income Percentage

You calculate the income percentage as follows:

(i) Subtract the applicable adjusted qualifying income in the taxable year in which you sell your home, as listed in Column 2 of the Table, from your modified adjusted gross income in the taxable year in which you sell your home.

Your modified 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.

(ii) 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%.

E. Limitations and Special Rules on Recapture

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 had sold your home for its fair market value.
2. 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.
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 interests 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.

I acknowledge receipt of a duplicate of the foregoing Notice on _____,

Mortgagor

Mortgagor

The following information will assist you in determining the amount, if any, of "recapture tax":

1. Name of Mortgagor(s)

2. Date of Closing (settlement) of Mortgage Loan:

3. Location of Residence:

4. Principal amount of Mortgage Loan on date of Closing:

\$ _____

5. Federally-Subsidized Amount pursuant to Section 143(m) (B) of the code: 6.25% of the amount stated in #4 above =

\$ _____

6. Median family income in the statistical area where residence is located as of date of Closing of Mortgage Loan:

\$ _____ (HUD Median Income applicable as of Mortgage Loan Closing)

The following chart contains the income limits by household size. 2 or less means that there are one or two persons living in the household and 3 or more means that there are at least three persons living in the household. The limits change every 12 months as indicated on the chart below. The significant number will be the amount allowed at the time the home is sold (the day of closing).

Date that you sell your home	Holding Period Percentage	2 or Less	3 or More
Before the first Anniversary of closing (see note below)	20%	\$76,400	\$87,860
On or after the first anniversary of closing, but before the second anniversary of closing	40%	\$80,220	\$92,253
On or after the second anniversary of closing, but before the third anniversary of closing	60%	\$84,231	\$96,865
On or after the third anniversary of closing, but before the fourth anniversary of closing	80%	\$88,442	\$101,708
On or after the fourth anniversary of closing, but before the fifth anniversary of closing	100%	\$92,864	\$106,793
On or after the fifth anniversary of closing, but before the sixth anniversary of closing	80%	\$97,507	\$112,132
On or after the sixth anniversary of closing, but before the seventh anniversary of closing	60%	\$102,382	\$117,738
On or after the seventh anniversary of closing, but before the eighth anniversary of closing	40%	\$107,501	\$123,624
On or after the eighth anniversary of closing, but before the ninth anniversary of closing	20%	\$112,876	\$129,805

Note: Closing means the closing date for your loan.

Notice of Potential Recapture, Page 2 of 2, Original to U.S. Bank, Copies to Lender, Borrower