

**NOTICE OF POTENTIAL RECAPTURE  
TAX ON SALE OF YOUR HOME  
House Key Program  
Washington State Housing Finance Commission**

*Delivered to Each Mortgagor at Loan Closing*

The mortgage loan being made to you today has been financed with the proceeds of certain tax-exempt bonds issued by the Washington State Housing Finance Commission.

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 (9) 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 or dispose of your home at a gain and if your home increases above specified levels. The recapture tax will not apply in certain circumstances, which are explained in the Notice to Mortgagor of Maximum Recapture Tax and of Method to Compute Recapture Tax on Sale of Home which you will receive within 90 days after closing of your loan.

The recapture amount is based on a formula that includes the amount of the mortgage loan, the number of years the mortgage loan is outstanding, the gain on the sale or other disposition of your home, and your income. The maximum amount of the recapture tax starts at 1.25 percent of the original principal amount of the mortgage loan and increases by 1.25 percent of the principal amount each year for the first five years the mortgage loan is outstanding, with the greatest recapture tax equal to 6.25 percent (if the sale or disposition of your home occurs during year 5), and decreases by 1.25 percent of such principal amount in each subsequent year. The amount of the recapture tax may never exceed 50 percent of the gain realized on the sale or disposition of your home triggering the recapture tax. In addition, the recapture tax generally will not apply if your "modified adjusted gross income" for the year such sale or disposition occurs does not exceed the "adjusted qualifying income" for that year.

You may wish to consult a tax advisor or the local office of the Internal Revenue Service at the time you sell or otherwise dispose of your home to determine the amount, if any, of the recapture tax.

Please sign below to acknowledge that you are aware of the potential recapture tax discussed in this Notice.

\_\_\_\_\_  
Date

\_\_\_\_\_  
Mortgagor

\_\_\_\_\_  
Date

\_\_\_\_\_  
Co-Mortgagor