

**ARKANSAS DEVELOPMENT FINANCE AUTHORITY**  
**StartSmart Program**

**EXHIBIT A**

**Notice To Borrower(s) of Potential "Recapture Tax"**

**NOTE: This notice is to be reviewed and signed by all borrowers at time of application.**

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. As a result, pursuant to Section 143 of the Internal Revenue Code of 1986 (the "Code"), if you sell, exchange, or otherwise dispose of your home (Disposition) during the next nine years a portion of this benefit may be recaptured by the Internal Revenue Service. "Recapture Tax" is the repayment of a mortgage subsidy to the Internal Revenue Service. (See IRS Pub. 523)

You may wish to consult with a tax advisor or the local office of the Internal Revenue Service at the time of disposition of your home to determine the amount, if any, of the "Recapture Tax" you owe to the IRS. At this point in time, there is no way to predict the amount of "Recapture Tax" borrowers may be required to pay. Also, ADFA will not calculate the amount of "Recapture Tax" you may owe upon disposition of your home.

***Note that ADFA will reimburse the borrower in the event that "Recapture Tax" is owed upon request of the borrower. ADFA will only reimburse up the actual amount owed, after proof of payment has been provided, for requests made within one year of payment.***

Factors which affect "Recapture Tax":

1. No "Recapture Tax" due if your household income is below the Federal qualifying limits at time of sale.
2. No "Recapture Tax" is due if the disposition occurs after nine (9) years of your mortgage loan.
3. In no event will the amount of "Recapture Tax" exceed fifty (50%) percent of the gain on the sale or disposition of the property. The "Recapture Tax" also will never exceed the original mortgage loan amount times the holding percentage period shown in # 4 below.
4. The holding percentage period is determined based on the length of time you own your home prior to its disposition. The percentages are as follows:

Year One	1.25%	Year Four	5.00%	Year Seven	3.75%
Year Two	2.50%	Year Five	6.25%	Year Eight	2.50%
Year Three	3.75%	Year Six	5.00%	Year Nine	1.25%

The maximum "Recapture Tax" amount is adjusted to reflect the holding period of the home that is financed. Other special rules may apply in particular circumstances, including, if you refinance your home. Again, we urge you to consult with a tax advisor or an office of the Internal Revenue Service if you refinance, sell or otherwise dispose of your home.

The "Recapture Tax" amount may also be reduced or eliminated based on a comparison of the Mortgagor's "modified adjusted gross household income" for the year in which the sale of the house takes place. The modified adjusted gross household income is equal to the federal adjusted gross household income increased by any earned tax-exempt interest and decreased by the gain on the sale of the house.

I understand and acknowledge the potential for "Recapture Tax" to apply to my mortgage loan as explained above.

Borrower: \_\_\_\_\_

Date: \_\_\_\_\_

Co-Borrower: \_\_\_\_\_

Date: \_\_\_\_\_