POLICE AND FIREMEN'S RETIREMENT SYSTEM
MORTGAGE LOAN PROGRAM
Notice to Applicant
Of Potential Adverse Tax Consequences

The State Treasurer has been given and is relying on an opinion from private tax attorneys, that there is an adequate basis, in accordance with prevailing guidelines, to conclude that it is reasonable for the Police and Firemen's Retirement System to take the position that mortgages issued under this program should not be treated as taxable distributions. However, the Treasurer has become aware that IRS employees, responding to requests for advice, have informally stated that loans made under this mortgage program should be classified as taxable premature distributions from a qualified pension plan under Section 72(p) of the Internal Revenue Code.

If it is ultimately determined that these mortgage loans are taxable distributions, you could be required to pay tax on the mortgage proceeds as well as penalties. Advice from IRS employees may not be conclusive as to how the IRS might rule in the event of an audit or if it were to issue a formal determination. Nevertheless, because of the various informal opinions, which have now been expressed on the taxability of this loan program, and because of the potential for substantial tax liability, we strongly suggest that you consult your tax advisor before submitting your application. While the HMFA, as administrator of this investment program for the Retirement System can offer no further advice or clarification as to these IRS statements, it continues to make copies of the above mentioned opinion available through participating lenders.

_____
Borrower

_____
Co-Borrower

_____
Date