

March 15, 2007

John and Jane Adams
123 Main Street
Salem, New Hampshire 03568

Re: Split Purchase QPRT Proposal

Dear John and Jane:

As I discussed with John recently on the telephone, I am enclosing a booklet containing memoranda, calculation worksheets, flowcharts and a draft SPQT document which we are proposing for the ownership of the secondary residence you may be purchasing some time later this year.

The contents of the booklet should be self-explanatory. Note that Flowchart A under tab D-1 shows how we propose to finance the purchase, assuming a \$1,000,000 purchase price and a closing in March, 2007 (we will update all of these numbers once the purchase price and date of closing are ascertained). The strategy requires that John fund 60% of the purchase price, and the GST Exempt Separate Family Trust ("SFT") contribute 40%, based on the actuarial values of John's "life estate" and the SFT's "remainder interest", respectively. In light of your limited personal resources, and the SFT's greater wherewithal once the funds are released from escrow, John wanted to push more of the obligation over to the SFT. We do this by arranging a 30-year "balloon" loan from the SFT to John with respect to which interest only will be payable by John during the 30-year term. Our numbers assume a \$300,000 loan and a 5.01% interest rate (the "applicable federal rate" for February, 2007), but we will fine-tune the loan amount after we push some numbers around. With the loan, John will be required to come up with roughly 30% of the purchase price, and the SFT will fund 70%.

As I discussed with John, I believe that this is a good strategy given the current low interest rate environment and the recently softening real estate which reduces the risk that the property might depreciate in value during John's lifetime. Over the term of the trust it appears reasonable to assume that the property will enjoy average annual appreciation which will exceed the 5.8% "hurdle rate" discussed the summary under tab A of the booklet. It seems, therefore, more likely than not that the use of this strategy will further leverage the SFT fund by shifting more value to it over the term of the SPQT than if the SFT had purchased the property alone and bore all carrying charges associated with the property throughout John's lifetime. Also, this strategy alone will ensure that

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both of you (and not just John) can enjoy rent-for-use of the property through your lifetimes without any estate tax risk.

Give me a call with any questions or comments as you read through these materials. I will wait to hear from John concerning a time and place.

Very truly yours,

McDONALD & KANYUK, PLLC

Joseph F. McDonald, III

JFM/ndm

Enclosure(s)