



Owen House  
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Stanford, CA  
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# Adjustment Improvements

## *Overview*

Borrowers with a Mortgage Assistance Program (MAP) loan or a Deferred Interest Program (DIP) loan from Stanford University are advised to document improvements made to the home on which the loan(s) are secured. Under certain defined circumstances, the amount due on the Due Date may be subject to adjustments for improvements, resulting in a reduction of the amount of Deferred Interest payable by the borrower. These adjustments are available only if there has been appreciation in the Property.

MAP Deferred Interest is payable on the Due Date (and on the date of any Prepayment) in an amount equal to the lesser of (i) Stanford's Share of Appreciation, or (ii) an amount of interest, which when added to Current Interest previously paid to Stanford, would result in a return to Stanford on the Outstanding Principal from time to time equal to the Note rate, compounded annually. Credits for improvements only apply to the calculation of Stanford's Share of Appreciation.

DIP Deferred Interest is payable on the Due Date (and on the date of any Prepayment) in an amount equal to Stanford's Share of Appreciation.

## **ADJUSTMENT IMPROVEMENTS**

An Adjustment Improvement is an improvement made to the Property during the life of the loan (excluding repairs and improvements constructed with insurance proceeds or the cost of which is reimbursed through insurance proceeds) that meets all of the following criteria:

- (i) as defined by Internal Revenue Service regulations, the improvement on the Due Date constitutes a capital improvement, the cost of which is properly added to a homeowner's adjusted basis in the Property for capital gains tax purposes;
- (ii) it is not in violation of any applicable zoning and building codes;
- (iii) all required building permits have been obtained;
- (iv) all Stanford policies have been complied with;
- (v) it is completed prior to determining the Due Date Fair Market Value; and
- (vi) it remains, as determined in the sole discretion of Stanford, a part of the Property on the Due Date.

Improvements add value to your home, prolong its useful life, or adapt it to new uses. They have a useful life of more than one year. For example, adding a family room or bathroom, installing a new fence, upgrading your plumbing or wiring, putting on a new roof, or paving your unpaved driveway are considered improvements. The following chart from the Department of the Treasury, Internal Revenue Service Publication 523 lists examples of improvements.

#### EXAMPLES OF IMPROVEMENTS

Additions	Heating and Air Conditioning
Bedroom	Heating system
Bathroom	Central air conditioning
Deck	Furnace
Garage	Duct work
Porch	Central humidifier
Patio	Filtration system
Lawn and Grounds	Plumbing
Landscaping	Septic system
Driveway	Water heater
Walkway	Soft water system
Fence	Filtration system
Retaining wall	
Sprinkler system	
Swimming pool	
Miscellaneous	Interior Improvements
Storm windows, doors	Built-in appliances
New roof	Kitchen modernization
Central vacuum	Flooring
Wiring upgrades	Wall-to-wall carpeting
Satellite dish	
Security system	
Insulation	
Attic	
Walls and floors	
Pipes and ductwork	

Improvements that are no longer a part of your home do not qualify for adjustment. For example, if you put wall-to-wall carpeting in your home several years ago and later replaced the carpet, the cost of the old carpeting can not be included as an adjustment improvement.

No adjustment of actual cost will be made to account for inflation or for labor performed by the borrower.

#### REPAIRS

Repairs are not eligible for adjustment. Repairs maintain the home in good condition, but do not add to its value or prolong its life. Repainting your house inside and outside, repairing your gutters, fixing leaks, or replacing a broken window are examples of repairs.

#### PROCESS

At the time of loan re-payment, a borrower may request that an Adjustment Improvement be included in the calculation of Stanford's Share of Appreciation. To qualify for the credit, the borrower must submit from an independent Certified Public Accountant (CPA), acceptable to Stanford, the following:

- (i) a statement on the CPA's letterhead, including his/her name, address, and telephone number, and includes:
  - (a) the name of the borrower,
  - (b) the address of the residence where the Adjustment Improvement(s) were completed,
  - (c) a list of the Adjustment Improvement(s) which includes the date, the description, and the cost of the Adjustment Improvement(s); and
- (ii) the Certification, which is attached to this brochure.

It is the borrower's responsibility to provide to Faculty Staff Housing (FSH) the CPA's statement and Certification prior to a full or partial loan payment. The borrower should carefully review the CPA's statement and Certification and address any questions or concerns regarding the documents before submission to Stanford. The Certification is subject to review and acceptance by Stanford. Stanford reserves the right to obtain the opinion of a CPA if it reasonably believes the opinion of borrower's CPA is in error. A re-calculation of Deferred Interest will not be made after the loan payment is received.

*Certification*

I am a Certified Public Accountant licensed to practice in the State of California. The attached list of improvements, which includes the date, description, and cost, represents a list of capital improvements made to the residence of:

Owner: \_\_\_\_\_

Address: \_\_\_\_\_

In providing this list, I certify the following:

1. I am familiar with the Department of Treasury, Internal Revenue Service publication 523 and the supporting regulations.
2. I have reviewed the documents necessary to satisfy the standard applied by Internal Revenue Circular 230 in general and regulation §10.22 in particular for practicing before the Internal Revenue Service.
3. I have read and understand the relevant terms of the applicable Mortgage Assistance Program (MAP) or the Deferred Interest Program (DIP) loan to which the adjustment improvements apply.

Based on the foregoing, I certify that the improvements listed on the attached statement comply with applicable federal income tax laws and regulations to be included in the adjusted basis of the Residence.

I understand that Faculty Staff Housing may contact me for further information about the capital improvements listed above and I agree to cooperate with Faculty Staff Housing in connection with such requests. I further understand that whether or not any or all of the above improvements are taken into consideration for determining a MAP or DIP payoff amount remains in the discretion of Faculty Staff Housing.

\_\_\_\_\_  
Signature of the CPA

\_\_\_\_\_  
Date

CPA License Number: \_\_\_\_\_