

Dear Borrower:

**Subject: Calculating Recapture – Capital Improvements Credit**

You are applying to refinance your existing Section 502 direct loan. Payment assistance, also known as subsidy, is granted to eligible borrowers, and borrowers sign Form 3550-12, Subsidy Repayment Agreement at loan closing. If a borrower pays off the principal and interest of their loan, either through the normal course of repayment or through a refinance, and continues to occupy the property, the subsidy recapture amount owed must be calculated. Please refer to the Subsidy Recapture Fact Sheet included with this application packet for more information.

What are the next steps?

As part of the refinance application process, your property's market value will be determined by an appraisal, or assessor or tax records, which is then used to calculate the amount of subsidy recapture owed. You will **not** be charged for an appraisal if one is obtained. Once that subsidy recapture is determined, you will have the option to either include the subsidy recapture in the refinance of your loan, or defer repayment of that amount until you transfer title or cease to occupy the property in the future. The maximum amount of subsidy recapture which must be repaid is the lesser of the total dollar amount of subsidy received, or 50 percent of the property's value appreciation. Value appreciation is based in part on the difference between: (1) the market value of the property at the time of loan pay off; and (2) certain capital improvements (among other items).

What are Capital Improvements?

Capital improvements are additions that add to the value of the property above and beyond repairs that maintain the property in good condition. General maintenance and updating your home to keep it in good condition does not qualify as a capital improvement. You can obtain credit for the "value" that the capital improvement added to your home, not the actual cost of the improvement. An appraiser must determine how much "value" is added.

- **Examples of capital improvements that are eligible for credit include:** Adding a garage, constructing an additional room, or adding a deck, patio, porch, fence, storm windows, skylights, outside lighting, or major landscaping.  
**Examples of activities that do not qualify for capital improvements credit include:** Yard maintenance, painting, wallpapering, replacing floor coverings such as carpets or linoleum, replacing the roof, siding, wells, septic systems, new or replacement appliances, furnaces, or water heaters.

**If you DO NOT have capital improvements,** please check the box here:

**If you do have capital improvements,** please check only one of the following boxes: \_

- I decline to receive credit for the value of the improvements.** As such, your property's market value will then typically be determined through assessor or tax records which are publicly available. Market values determined by assessor or tax records are generally lower than market values determined by an appraisal. A lower market value may result in less recapture that is owed (than what the maximum amount received was), but depends on other factors such as prior liens, closing costs, etc.

- I want to receive credit for the value of the improvements.** You must complete the section below and return with your application. In order for the value of the improvements to be calculated, an appraisal will be ordered by the Agency. Given the demand for appraisals and the remoteness of some rural homes, obtaining an appraisal will typically add approximately 60 days to the processing timeframe. While appraisals typically result in higher market values than assessor or tax records, the value of eligible capital improvements can reduce the value appreciation of the property, which may result in less recapture that is owed (than what the maximum amount received was), but also depends on other factors such as prior liens, closing costs, etc.

Please list additions and/or improvements to your home that you wish to be considered.

Provide a brief description of the capital improvement and the date the work was completed. Rural Development will make a determination regarding the eligible improvements based on Agency guidelines. Improvements to be considered: *(Example: built a 10' x 12' deck in July 2010)*

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**I certify that the information submitted in this form is true and correct to the best of my knowledge.**

**Borrower Signature:** \_\_\_\_\_ **Date:** \_\_\_\_\_

**Borrower Signature:** \_\_\_\_\_ **Date:** \_\_\_\_\_

**Property Address:** \_\_\_\_\_

**Phone:** \_\_\_\_\_ **Best time to contact you:** \_\_\_\_\_