

# ADUs: Can I build an ADU and how do I pay for it?

## Q&A Session

### Financing Questions:

- 1. *My mother owns the house and I want to get financing to build an ADU in her backyard, can I apply for the loan?***
  - No, only the homeowner can apply for the loan.
- 2. *What if I already have a 2<sup>nd</sup> lien on my house?***
  - Unfortunately, you will not be able to apply for the loan program if you already have a 2<sup>nd</sup> lien on your home.
- 3. *What if I don't have any loan on my property – can I still get a loan from Housing Trust to finance my ADU?***
  - Unfortunately, no. Homeowners who have no existing mortgage can qualify for a conventional HELOC or a new 1<sup>st</sup> mortgage to finance the ADU development and construction costs.
- 4. *I live in Castro Valley, can I apply for the loan if I'm not in Santa Clara County?***
  - No. To qualify for the loan, your property must be located in Santa Clara County or East Palo Alto.
- 5. *Why is the interest rate so high compared to what's on the market?***
  - Our ADU construction loan program will be in the 2<sup>nd</sup> lien position, which carries a higher risk for the lender. The interest rate is very much in line with the rates generally charged for second mortgages.
- 6. *Since this is a 3-year loan, do I have to repay \$200,000 within 3 years?***

Yes, loan repayment is expected within 3 years; you should be able to refinance the Housing Trust loan along with your existing 1<sup>st</sup> loan into a new loan with any conventional lender and they will allow you to use the rental income from the ADU, since you have already established a 2 year rental income history with us.
- 7. *How long does it take to get my loan approved?***
  - It will take approximately between 45-60 days to get you from loan application to approval to funding of the loan.
- 8. *What is the benefit of this loan program compared to other loans on the market?***
  - One of the unique features of our loan is that with our 3 year construction-to-permanent loan, we allow you to use the projected rental income from your ADU as qualifying income for the HT loan. With our loan, we are also providing you with a

two year seasoning for landlord experience and rental income history – which is required by FNMA – this will allow you to refinance this loan into a new 1<sup>st</sup> loan after 3 years.

**9. Why are there interest only payments for the first 12 months and then Principal & Interest payments for the next 24 months?**

- This structure of our construction loan anticipates that it will take the borrower up to 12 months to fully develop and rent the ADU. While the ADU is being built, we don't want you to bear the financial burden of a full mortgage payment. That is why your regular Principal and Interest payments start in years 2-3 of the loan – by that time, your ADU has been built and it has been rented out, so you have less of a financial burden with the rental income.

**10. Can I obtain funding prior to obtaining permits?**

- Funding will be released to escrow once the loan closes. If you are looking for reimbursement of Pre Development Soft Costs (like permit fees), you will have to submit those costs to us along with your paid receipts and if those costs are approved, then reimbursement will be done after close of escrow.

**11. I own a single-family home, but I don't live in it. Can I still get financing from Housing Trust for my ADU?**

- At this time, the Housing Trust loan program is only available to homeowners who are living in their homes, where they want to build an ADU. It may be available to investors in the future, but not right now.

**12. Why are you using 120% AMI? Where is that guidance coming from?**

- The Area Median Income limits are set up by HCD every year, and the main motivation behind that is to allow low-to-moderate income individuals or families to be renters and live in this area, because otherwise they are priced out of the rental market since they cannot afford a market rate rental unit.

**13. The rental cap of \$2230/month is too low for this area – why is it set at that limit?**

- Our program is designed to increase the availability of affordable housing and we see ADU's as an opportunity to do so. The rent at \$2230 is set below the market rate rents to make the ADU available to low-to-moderate income individuals/families who are otherwise unable to rent in this high priced area.

**14. How will building an ADU in my backyard affect my taxes?**

- Adding an ADU does increase your property tax, but only incrementally – it does NOT trigger a complete reassessment of your entire property. You'll pay property taxes on your ADU in the year it is built, but you will continue paying the same property tax for your main house as your last assessment. Generally speaking, taxes

on an ADU will run at about 1% of your construction cost, so if your construction cost is \$100,000, your taxes for the ADU will be about a \$1000.

### Permitting ADU Questions:

- 1. I live in an older home with a detached garage and the garage is almost directly on the property line. Would I need to move or demo the garage to meet setbacks?**
  - a. No, if you have an existing structure that's properly permitted you can convert the existing structure without moving it even if it doesn't meet setbacks. You also have an option of expanding it up to 150 sqft as long as it meets fire safety standards.
  
- 2. How big can ADU and JADU be?**
  - a. ADU – In most cases in California, you can build up to 1,200 sqft or 50% of your existing dwelling unit, whichever is less
  - b. JADU – up to 500 sqft
  
- 3. I have an ADU, but it's unpermitted. What should I do?**
  - a. With the new legislation, the homeowner of the unpermitted ADU has 5 years to retroactively permit the unit and bring it up to code. San Jose currently has an amnesty program for illegal ADUs, where homeowners can apply for permits easily and some of the costs and fines are waived. San Mateo County, SF County, and Santa Cruz County have similar programs, but I'm not aware of any other cities in Santa Clara county with an amnesty initiative.
  
- 4. Do I need to have a General Contractor selected before I apply for the loan?**
  - a. You must have a General Contractor *identified* at loan application. Please ensure that the selected General Contractor has meet Housing Trust's qualifications before entering into a formal contract. In addition, your permit must be issued by your local jurisdiction.
  
- 5. Will I have to pay for predevelopment expenses before the ADU loan closes?**
  - a. Yes, if the borrower is planning to include these costs as part of the loan. The borrower will have to pay these predevelopment costs out of pocket initially. Housing Trust will review requests for predevelopment soft costs reimbursement on a case-by-case basis. These expenses may be reimbursed at close of escrow, if approved. We will require paid invoices & receipts as proof.
  
- 6. Can I develop the ADU myself as a general contractor?**
  - a. No, the program is predicated on the borrower working with a licensed contractor who has experience constructing at least 2 ADU's.

**7. Which cities are allowing ADU construction on multi-family property?**

- a. ADUs are allowed on all multifamily properties under the new state law if you meet all setback, height, and other planning requirements. For multifamily lots, you could build up to 25% of the existing units. For example, an 8-unit apartment complex could qualify for 2 ADUs.

**8. Do I get a separate address for my ADU?**

- a. Yes, this can be requested through the building department.

**9. Is there separate parking requirement for a detached ADU? What about a garage conversion?**

No replacement parking required if it is a garage or internal conversion.

Owner must provide 1 additional off-street parking space for the ADU unless one of the following is met:

- a. The ADU is located within one-half mile of public transit
- b. The ADU is located within an architecturally and historically significant historic district
- c. On-street parking permits are required but not offered to the occupant of the ADU
- d. When there is a car share vehicle located within 1 block of ADU

**10. Can I move into my ADU and rent my primary residence?**

- a. No, not for the term of our construction loan, which is 3 years. After that time, once the Housing Trust loan has been paid off/refinanced, then you can move into the ADU yourself and rent out your primary residence.