

ADUs: All About Permitting Q&A Session

1. Are you lending in Monterey County? Does the \$118K apply to all counties?

Monterey County is not eligible for our ADU construction loan program at this moment. Currently, our pilot program only applies to all the cities in Santa Clara County and East Palo Alto. In the future, we may be opening it up to other cities and counties.

2. No standalone ADU?

Yes, a stand-alone (or detached) ADU is eligible for our ADU construction loan program.

3. Does Garage conversion to JADU qualify?

A garage conversion would qualify for our ADU construction loan program; however, not as JADU (which does not have a separate bathroom or kitchen). The ADU will need to have a separate bathroom and a kitchen for it to qualify as a “garage conversion”.

4. Why just a fixed rate mortgage?

As a 2nd lien holder on the property, our lien position comes after the 1st lender, so there is less “security” for us as a lender. With a fixed-rate mortgage, it is less risky for both the homeowner and the lender. Additionally, our loan is a short-term loan that lasts only 3 years.

5. Do you have preferred list of contractors?

We do not necessarily have a list of preferred contractors. We can provide you a short list of local ADU Practitioners for your convenience. We highly encourage you to do your own research and due diligence on each of the vendors. Please email adu@housingtrustsv.org.

6. What is the advantage of using this loan process over a 2nd loan with my current lender?

As a homeowner, you have the choice of which lender you want to work with. With our loan, we will be lending on the future value of the property with the ADU (up to 97%), and we will also use the rental income from the ADU to help you qualify for the loan. In addition, our ADU construction loan program is designed so that the rent, even when charging below market rate, will cover the loan payment.

7. Can the owner live in the new ADU and rent out the primary unit?

No, we require the homeowner to live in the primary residence as an owner-occupant and rent out the ADU to an income-qualified tenant for the duration of the loan (3 years). However, the owner can live in the new ADU and rent out the primary residence once you have refinanced the loan after 3 years.

8. What if current mortgage is not fixed but very seasoned? Costs a lot to refinance.

We require your current mortgage to be a fixed interest loan – 20-year, 15-year, 30-year fixed, or any other fixed term. Hybrid mortgages like 5/1 ARM and 7/1 ARM are not allowed at this time.

9. How does this work for ADUs for elderly family members that wouldn't necessarily be paying explicit rent?

The amount you collect from rental income is intended to cover the loan payments on the construction loan. In the case of elderly parents, we will need to evaluate their current income. This will include their Social Security benefits and pension. If you, as a family member, are subsidizing their income, we will need to include that as part of their monthly income. If you are not making any income from rent, it would mean that you will have the burden of making 2 monthly mortgage payments (1st and 2nd mortgage). We will need to evaluate your debt-to-income ratio accordingly.

10. How do we qualify for soft costs after the permit is already approved?

Our ADU construction loan program will allow you to reimburse predevelopment costs, such as permitting fees and architectural design fees. You will need to provide us with a list of predevelopment costs you have incurred, along with corresponding receipts and invoices. Housing Trust will then analyze and approve these costs on a case-by-case basis. If approved, soft costs will be reimbursed at loan closing.

11. How do you meet the build readiness requirement?

To meet our project readiness pre-qualification requirements, you must meet the following:

- a. You must provide proof of attendance of Housing Trust in person workshop or 2 of our online webinars
- b. You must take an online Property management class or provide documentation for experience as a landlord.
- c. Your project must be a detached or garage conversion ADU
- d. Your property must be in Santa Clara County or East Palo Alto
- e. You must hire a qualified builder. You do not need to have a Builder hired before applying for the loan. A qualified Builder will have:
 - At least 5 years of residential construction experience in the state of California
 - Completed at least 2 ADUs in the Bay Area
 - Provided evidence of an active ADU project pipeline
 - 5 positive client interactions (testimonials or online reviews)
 - Must have required insurance coverage (as stated in our Builder Guidelines)
- f. Your building permit must have been issued by the city and you should have a site plan and site description
- g. In working with your Builder, you must have your Total Development Costs and Project Schedule

12. Is that 5% fixed rate subject to change? It may take me 6 months to a year to apply.

As of now, this interest rate is fixed.

13. How are soft costs such as architecture fees covered if a permit is required before the loan can be obtained?

Our ADU construction loan program will allow you to reimburse predevelopment costs, such as permitting fees and architectural design fees. You will need to provide us with a list of predevelopment costs you have incurred, along with corresponding receipts and invoices. Housing Trust will then analyze and approve these costs on a case-by-case basis. If approved, soft costs will be reimbursed at loan closing.

14. Do you target a specific community for these loans? (Teachers, public employee)

The main goal of this program is to increase the supply of housing in the Bay Area, thereby creating more affordable housing. We are not targeting any specific community. We want to create more affordable housing opportunities for those who are not able to afford market rate rent in the Bay Area, which includes teachers, public employees, janitors, and service workers.

15. What is the amortized payment on the loan at \$200,000?

The amortized payment on a \$200,000 at 5% over 20 years is \$1,360.56 per month.

16. I came a little late. Will there be a replay and if so where can I find it?

While we do not have a recording available, a copy of the slides is posted on our website under “Additional Resources” on the bottom on the page. If you have any questions about our loan program, we are happy to answer them! Please email us at adu@housingtrustsv.org.

17. What if you don't need a first loan and just need a loan for short-term to complete the ADU? Will you provide a loan in this situation?

Unfortunately, we cannot do that - The purpose of our loan program is to provide financing help to the homeowner who wants to create an affordable unit in their backyard. Our loan is meant to be in second position, so we do require the homeowner to have a current first mortgage ahead of us.

18. What if your 1st loan is a 20 or 25 year fixed loan?

That should be fine – as long as it's a fixed loan.

19. Can you re-finance before the 2 years is up?

Yes, you can re-finance before the 2 years is up without any prepayment penalty.

20. Do I have to identify a renter and bring their income documentation to you for you to verify the renter income in order for you to tell me how much of a loan amount I qualify for?

No, you will not need a tenant/renter ready when you apply for the ADU construction loan program. Finding an income-qualified tenant will come after construction is completed.

21. Are you going to partner with the City of San Jose for a forgivable loan?

We do not have any updates yet on this program; we do anticipate working with the City in the future and we will keep everyone posted on the timing.

22. Can a family member become a “qualified tenant” e.g. a parent with social security income - less than the max income allowed?

Yes, a family member can be a qualified tenant as long as they meet the tenant income requirement. The tenant can make up to \$118,920, which is 120% Area Median Income (AMI). In the case of your parents, we will need to evaluate their current income (including Social Security, pension, and any other sources of income. If you, as a family member, are subsidizing their income, we will need to include that as part of their monthly income.). This would mean you will have the burden of making 2 monthly mortgage payments (1st and 2nd mortgage), without receiving the rental income from a typical tenant. We will need to evaluate your debt-to-income ratio accordingly.

23. Are there any restrictions on home LTV values on primary mortgage?

Yes, your primary mortgage balance cannot be more than 80% loan-to-value (LTV), based on current market value of your property.

24. Would you consider a variable first—well seasoned and with low LTV value? Lots of variables are not risky.....

We are currently only offering this program to homeowners who have a fixed mortgage loan.

25. You mentioned that most lenders will not allow use of the ADU income to qualify for a 2nd loan. So at the end of your 3 year loan, won't it be difficult to finance with a conventional lender? Are you assuming that property value will go up (with increased value including the ADU) and clients will refinance their 1st loan to include the ADU loan amount or refinance for a 2nd?

Traditionally, conventional lenders would disqualify any “unseasoned” proposed rental income from an ADU, because they are looking for a 2 year history of rental income. Our construction loan program is structured so that at the end of the two-year period, homeowners will have two years of rental income history that will clearly show revenue from the ADU.

We are not making any assumptions or assurances about whether the market value of the property will go up after the ADU is built or not; all we can tell you is that your property value at the time of our loan payoff will be determined by the appraisal which will be done at that time. The ADU contributory value will also be taken into account in the appraisal.

As for refinancing with a conventional lender at that time, your lender should be able to consider the “rental value” from the ADU and use it to help you qualify for the loan, since you will be able to give them the 2 year landlord history and 2 years of rent roll history, which they are looking for.

26. My property is in San Jose but it's in the unincorporated zone. Does my property qualified for the program you are offering?

Yes, homeowners located in Santa Clara County and East Palo Alto are eligible for this loan program, including unincorporated areas in the county.

27. Please repeat answer about renting main home and landlord to live in ADU

We require the homeowner to live in the primary residence as an owner-occupant and rent out the ADU to an income-qualified tenant for the duration of the loan (3 years). However, the owner can live in the new ADU and rent out the primary residence once you have refinanced the loan after 3 years.

28. Can we get a copy of the deck/slides?

Yes, we have posted a copy of the slides on our website under “Additional Resources” on the bottom of the page.

29. When do my payments start and end on the loan?

Your interest only payments on the loan will start the month following the month you close the loan. For. Eg, if your loan closes June 1st,2021 your interest only payment will start on Aug. 1st, 2021. After, your loan converts to a permanent loan in month 13, your regular monthly

mortgage payments (consisting of principal, interest, taxes and insurance) will start and your payments will be amortized over a 20 year period. At the end of our 3 year loan term, you will be expected to repay our loan in full, either by refinancing our loan with your current 1st mortgage or by paying our loan off completely.