



ADU

Financing Seminar

April 11, 2024



HRDC
BUILDING A BETTER COMMUNITY

PARK COUNTY
COMMUNITY
FOUNDATION

Agenda

Goals for today's event

Intro to the Park County Housing Coalition

How lenders define ADUs

Conventional and government ADU financing

Panel discussion

Takeaway lunch

Goals

- Build a shared understanding of conventional and government financing options for ADUs
- Facilitate and encourage cross-sector collaboration to navigate grey areas in ADU financing policies
- Promote responsible investment in a housing type that could meet some community needs

About the Park County Housing Coalition



OUR STORY

The Coalition is a program that has been incubated within the HRDC's Community Development Department and supported by a host of local partners since 2020.

OUR WORK

Our work is guided by the 2022 Park County Housing Action Plan and implemented with our nearly 100 individual and organizational members.



OUR MISSION

Our mission is to increase opportunities for Park County residents to access housing where we can afford to live and thrive.

Why ADUs for Park County?

ADUS ARE COMMUNITY SUPPORTED

Tool #8 in the 2022 Park County Housing Action Plan

Recommended by the 2022 PCHC workforce housing subcommittee

Substantial community interest

ADUS LEVERAGE NATIONAL, STATE, AND LOCAL CHANGES

Oct. 2023 policy from the FHA created new financing pathways.

Montana Senate Bill 528 will further reduce regulatory barriers to ADUs in municipalities.

ADUs empower homeowners to leverage their home equity growth for community good.

ADUS CAN ALIGN WITH COMMUNITY NEEDS

The smaller sizes of ADUs are appropriate for our small households.

ADUs provide opportunities for multigenerational living and aging-in-place.

ADUs provide options for gentle infill development in the county's job centers.



PARK COUNTY
HOUSING COALITION

2024 ADU Pilot Program



April 11, 2024 ADU Financing Seminar

Join us over lunch to learn how institutions like Fannie Mae, Freddie Mac, the FHA, VA, and USDA RD approach financing ADUs. Then, hear from a local panel representing lenders, realtors, builders, and others in the real estate realm about securing financing for ADUs.



Fall ADU Workshop for Homeowners

Workshops will cover key topics such as financing, permitting, construction, and property management. Participants will identify key components of a package that would incentivize them to deed restrict or otherwise ensure their ADUs are available exclusively for community members to rent as their homes.

How Lenders Define Accessory Dwelling Units

1

A self-contained living area, space, or unit

2

that is always subordinate in size to the primary, one-unit dwelling

3

that can be added to, created within, or detached from a primary, one-unit dwelling

4

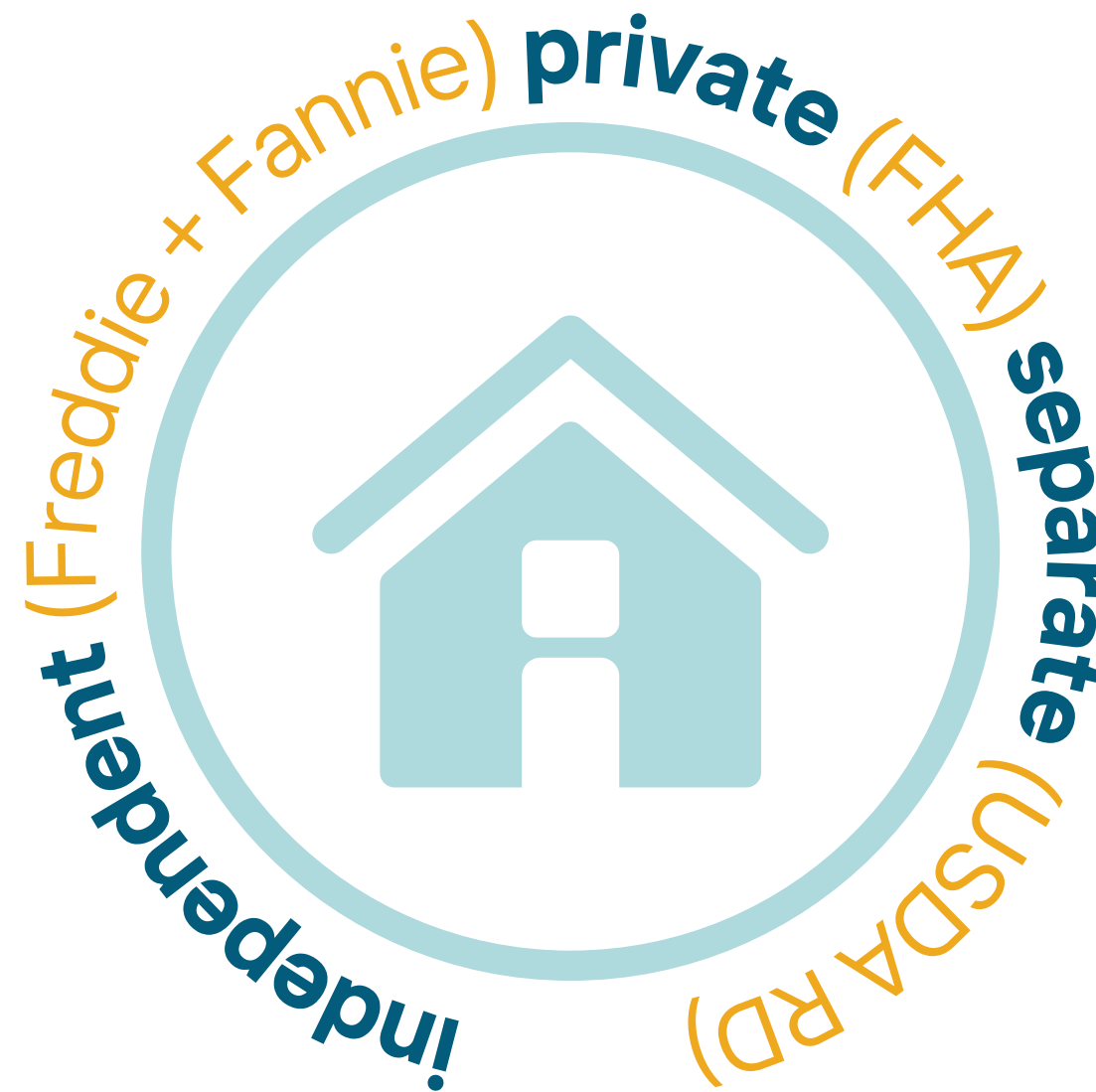
and constitutes a single interest in real estate with the primary, one-unit dwelling.

A self-contained living area, space, or unit

ADU REQUIREMENTS

separate ingress/egress
(Freddie, Fannie, and FHA)

**limited access to the ADU
from the primary dwelling**
(Freddie and Fannie)



POTENTIAL DISQUALIFIERS

separate utility meters
(Fannie, USDA RD, VA)

separate addresses
(Fannie, USDA RD, VA)

A self-contained *living area, space, or unit*

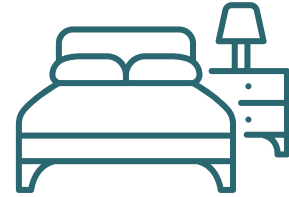


BATHROOMS

At least one required

**“water closet, lavatory,
and bathtub or shower”**
(FHA)

“bathing area”
(Fannie)



BEDROOMS

Studios and
1+ Bedrooms Allowed

bedroom not required
(FHA, Freddie)

“sleeping area”
(Fannie)

“sleeping facilities”
(USDA RD, VA)

KITCHENS

At least one required

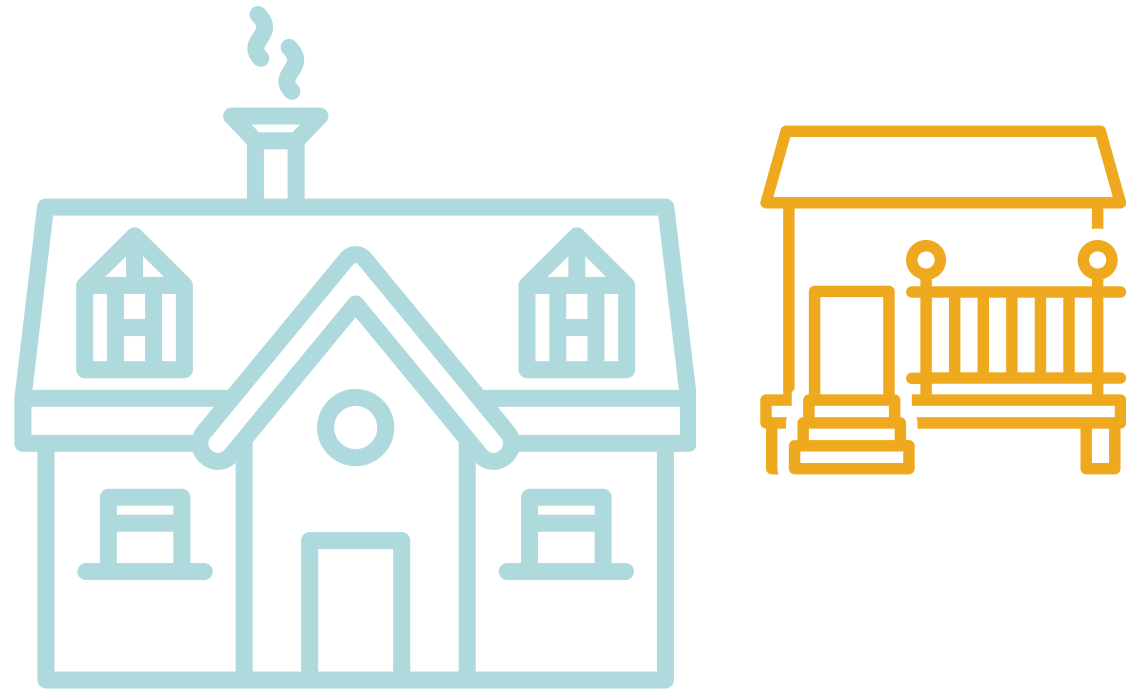


**“a sink with potable running
water and a stove utility hookup”**
(FHA)

**“a dedicated area where food is
stored, prepared, and cooked”**
(Freddie)

**“a sink with running water,
a stove or stove hookup,
cabinets, and
a countertop”**
(Fannie)

that is always subordinate in size...



- size is measured in terms of “finished area” (Freddie), “gross living area” (USDA RD and VA), or “gross floor area” (City of Livingston zoning regulations, Montana Senate Bill 528)
- no minimum size if ADU is site-built
- maximum ADU size is dictated by the size of the primary dwelling and zoning or other land use regulations (e.g., 800 sq. ft. for detached ADUs in City of Livingston; lesser of 75% of primary dwelling gross floor area or 1,000 sq. ft. in Montana Senate Bill 528)

...sometimes subordinate in location and appearance (USDA RD and VA)



...or contributes less to the value of the property than the primary dwelling (Freddie)

can be added to, created within, or detached from



attached



interior (upper level)



interior (basement)



detached



over the garage



garage conversion

a primary, one-unit dwelling



**constitutes a single interest in real estate
with the primary, one-unit dwelling**

ADU Construction Types



IF THE PRIMARY DWELLING IS
SITE BUILT
THE ADU CAN BE:



site built
(Freddie, Fannie, FHA, USDA
RD, VA)



modular
(Freddie, Fannie, USDA RD)



HUD code manufactured
(Freddie, Fannie, FHA, USDA
RD, VA)



IF THE PRIMARY DWELLING IS
FACTORY BUILT
THE ADU CAN BE:



site built
(Freddie, Fannie, FHA, USDA
RD, VA)



factory-built,
(Freddie CHOICEHome®*)

*Lender must be approved to offer this option. Home must be titled as real property, built to the HUD Code, and have features of site-built homes.

A portfolio loan may be required if both the primary dwelling and ADU are factory-built homes



CLIENT GOAL:

Buy a primary dwelling unit with an existing ADU

FEDERAL HOUSING ADMIN.

FHA-backed single-family purchase loan

- Rental income that is documented with a lease must not exceed 75% of the lease amount.
- Qualifying rental income cannot exceed 30% of the total income used to qualify.
- Lenders will be able to consider projected income for homes with an unoccupied ADU.

FREDDIE MAC

Any Freddie Mac mortgage

- Rental income that is documented with a lease must not exceed 75% of the lease amount.
- Qualifying rental income cannot exceed 30% of the total income used to qualify.
- **Examples include:**
 - **HomePossible® mortgages**
 - Total annual qualifying income limit is 80% of the area median income.
 - **CHOICEHome® mortgages**
 - Option if primary dwelling and ADU are manufactured, provided all program requirements are met.

FANNIE MAE

HomeReady® mortgage

- 75% of the income generated from the existing ADU can count as part of qualifying income.
- Total annual qualifying income must be equal to or less than 80% of the area median income.
- Very low-income borrowers can get \$2,500 in down payment or closing cost assistance.

USDA RURAL DEVELOPMENT

Single Family Housing Guaranteed Loan

- ADUs may be used for household members (e.g., to facilitate multigenerational living).
- ADU cannot be income-producing.
- Rental income from ADU may not be used to qualify borrowers.

VETERANS AFFAIRS

All VA-backed home purchase loans

- Rental income from ADU may not be used to qualify borrowers



CLIENT GOAL:

Buy a primary dwelling unit and build an ADU

FEDERAL HOUSING ADMIN.

203(k) Rehabilitation mortgage insurance

- Allows 50% of the rent from the ADU's lease agreement or appraiser's fair market rent to be used as Effective Income
- Can be used to build a new ADU that will be attached to an existing structure
- Primary dwelling unit must be ≤ 1 year old
- Total value of the property must still fall within the FHA mortgage limit for the area

FANNIE MAE

HomeStyle® Renovation mortgage

- Allows up to 75% of the lesser of the purchase price plus renovation costs, or the "as-completed" appraised value for site-built homes
- draw process; funds held in escrow

FREDDIE MAC

CHOICERenovation® mortgage

- make an ADU renovation part of a home purchase
- Rental income that is documented with a lease must not exceed 75% of the lease amount.
- Qualifying rental income cannot exceed 30% of the total income used to qualify

CHOICEHome® mortgage

- Option for projects with a HUD code manufactured ADU
- Option for primary dwellings that are HUD code manufactured and have a manufactured ADU



CLIENT GOAL:

Add an ADU to a single-family property they already own

FREDDIE MAC

Cash-out refinance

- Leverages existing home equity
- Rental income from the ADU may be used to qualify

CHOICERenovation® mortgage

- No-cash-out refinance option
- Allows up to 75% of the “as-completed” value to be used to finance renovations
- draw process; funds held in escrow

CHOICEHome® mortgage

- Option for projects that meet HUD and program standards.

FANNIE MAE

Cash-out refinance

- Leverages existing home equity
- Rental income from the ADU may be used to qualify

HomeStyle® Renovation mortgage

- For site-built homes, allows up to 75% of the “as-completed” appraised value to be used to finance renovations.
- For manufactured homes, renovation funds are capped at the lesser of \$50,000 or 50% of the “as-completed” appraised value.
- The inclusion of ENERGY STAR®-certified improvements can make the project eligible for a \$500 Loan Level Price Adjustment credit
- draw process; funds held in escrow

Construction-to-Permanent Loan

- Build a home with an ADU



CLIENT GOAL:

Add an ADU to a single-family property they already own

FEDERAL HOUSING ADMIN.

Cash-out refinance

- Leverages existing home equity
- Rental income from the ADU cannot be used as Effective Income to qualify borrowers

203(k) Rehabilitation mortgage

- Allows 50% of the rent from the ADU's lease agreement or appraiser's fair market rent to be used as Effective Income
- Can be used to renovate an existing ADU that is attached or unattached to an existing structure
- Primary dwelling unit must be \leq 1 year old
- Total value of the property must still fall within the FHA mortgage limit for the area

VETERANS AFFAIRS

Cash-out refinance

- Leverages existing home equity
- Rental income from ADU may not be used to qualify borrowers

PORTFOLIO PRODUCTS

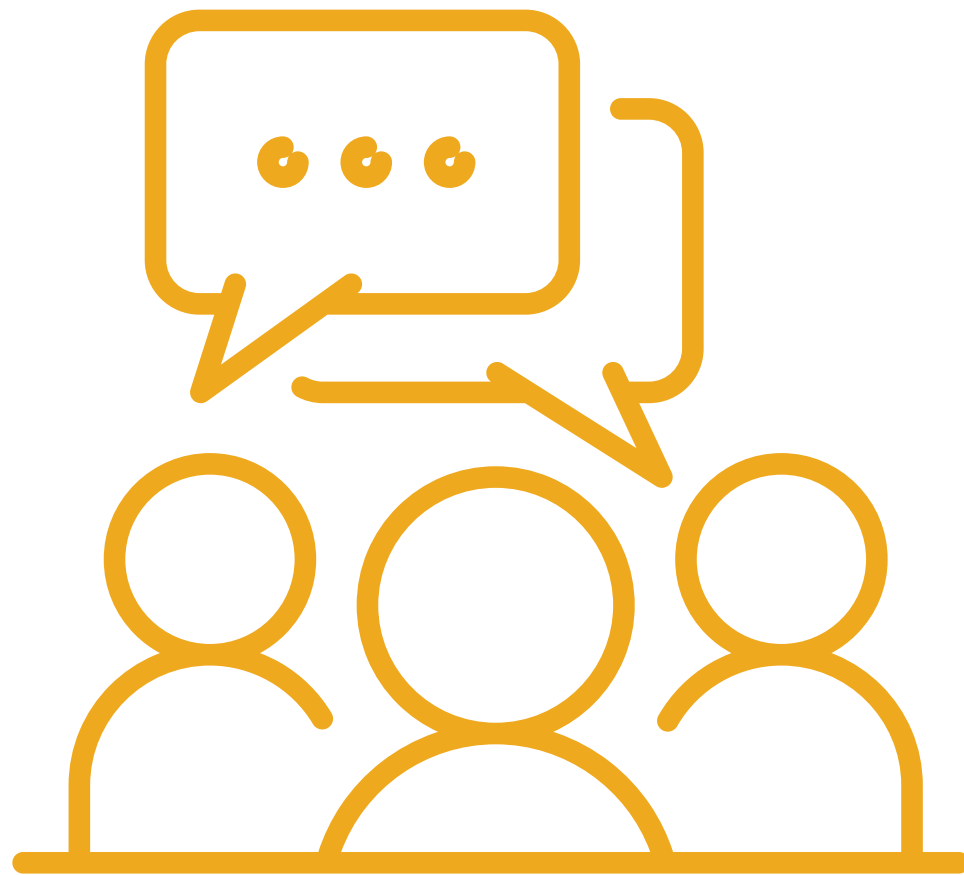
Home Equity Line of Credit (HELOC)

- Leverages existing home equity
- Pay back period is usually 5-10 years
- Often an interest only payment minimum

Home Equity Loans

- Leverages existing home equity
- Termed-out financing for which borrowers pay principal, interest, taxes, and insurance (a.k.a. "PITI")

Panel Discussion



- Becky Miller, Opportunity Bank
- Brooke Weimer, Berkshire Hathaway HomeServices
- Chris Rodi, Montana Valulytics
- Cody Wood, Woodland Ridge Tiny Home Crafters
- Mark Pesa, Guardian Title
- Wyeth Windham, Basecamp Group

Want to participate in our work this year?



Join the coalition and subscribe to our email list at www.parkcountyhousing.com



Contact us:

- **Katherine Daly, Park County Housing Coalition** kdaly@thehrdc.org
- **Becky Miller, Opportunity Bank**, bmiller@oppbank.com

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