

# Accessory Dwelling Unit (ADU) Financing

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CREDIT UNION

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# ADU Financing Options

- Cash
- Cash-Out Refinance
- Home Equity Line of Credit (HELOC)
- Fixed Rate Second Mortgage
- SMCU ADU Construction HELOC

# Options to Finance ADU'S

## Cash

- Offers flexibility to build based on available liquid funds
- Borrowers pay contractor directly
- Borrower can utilize a project manager to manage cost of building ADU
- No loan closings costs

# Options to Finance ADU'S

## Cash Out Refinance

- 80% loan-to-value
- Fixed and ARM Loan product terms
- Borrower gets instant cash
- Personally manage cost of building ADU
- Rate locked – Offers Security
- Closing costs average 1% of loan amount

# Options to Finance ADU'S

## Home Equity Line of Credit

- 80% loan-to-value
- Interest only payments during draw period
- Payments based only against amount drawn
- Adjustable Rate
- 25 -Year repayment term
- Borrower manages payments to contractors

# Options to Finance ADU'S

## Fixed Rate Second Mortgage

- 5, 10 and 15-Year terms
- Shorter term = Higher payments
- Rate is fixed for life of loan
- 80% loan-to-value
- Payments begin when loan funds Borrower pays all closing costs
- Borrower manages payments to contractors

# SMCU ADU HELOC History

- March 2019 Met with San Mateo County of Housing
- Worked with Hello Housing, a non-profit that supports homeowners as a one stop shop to help with all phases of building an ADU
- Launched product September 2020
- Funded 3 HELOC Constructions loans
- Converted borrowers to other ADU financing options
- Offering ADU financing virtual seminars 2022

# San Mateo Credit Union

## ADU Construction HELOC

### Purpose

- A ***temporary short-term*** loan designed to help borrowers finance an ADU, on their ***owner-occupied*** property, utilizing future value and future rental income, for the purpose of producing income, or to provide a reduced or rent-free home on their property.



# ADU Construction HELOC

## Loan Term

- 12 Month line of credit
- 2<sup>nd</sup> lien position
- Interest only payments
- Variable Rate
- Advanced monthly

# ADU Construction HELOC

## Property Type

- ADU eligible, existing single-family residence, ***owner occupied*** as primary residence

## Draw Phase

- Draws paid out monthly with 10% retainage
- Draws submitted by project manager
- 10% Retainage released on last draw request

# ADU Construction HELOC

## Specifics

- Borrow up to 90% of the “as-completed” value (1<sup>st</sup> lien not to exceed 80% loan-to-value) and use *future potential rents*
- \$400,000 maximum loan amount
- Loan can include fees for plans, permits, title updates, appraisals, up to 6 months payments of interest

# ADU Construction HELOC

## Loan Requirements

- Full mortgage loan application
- Utilize a Project Manager (*non-employee of the contractor*)
- Complete a Pre-Construction Analysis Report
- Project Manager must confirm construction plan can be completed within the budget & schedule
- Borrower completes HELOC Build Loan Agreement
- Pre-construction As-Completed Appraisal
- Final Recertification Appraisal

# ADU Construction HELOC Underwriting

## Guidelines

- Combined Loan-to-value up to 90% using future value
- 75% of the potential rents used to qualify if ADU's are common for the area
- Maximum Debt-To-Income ratio 48%
- Minimum FICO 680
- Rate - Wall Street Journal Prime Index minus 1.25% (floor of 2.00%)

# Steps Shared with Potential Borrowers

1. Explore Financing Options
2. Contact City Planning Department
3. Discuss Resources Available to help with:  
Design, Cost, Permits, Project Management, Landlord Training
4. Identify type of unit (Modular/Stick Built)
5. Meet with contractors to get quotes

# Questions

**SMCU**

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