

ACCESSORY DWELLING UNITS

More Space, More Income, More Choice

Having an accessory dwelling unit (ADU) on an existing property has become a popular way for homeowners to offer independent living space to family members or to gain residual income by renting out the unit. This popularity has increased demand for home financing that offers special consideration for an ADU. Freddie Mac's ADU policies provide multiple options for adding an ADU to a home or financing a purchase with the intention to rent or build an ADU, including allowing the borrower to use rental income to qualify. Our policies allow you to offer ADU flexibility on any Freddie Mac mortgage, giving your customers more choice in the purchase or renovation-financing process.

KEY BORROWER BENEFITS

- An ADU can allow homeowners to offer independent living space to parents, adult children or other family members for less than if they supported a separate living situation.
- Residual income from renting out an ADU can contribute to mortgage payments and property maintenance to help sustain homeownership.
- ADUs are usually smaller and more affordable to build than standalone residential properties and have the potential to increase property value in an amount much greater than their cost.
- ADUs typically have a smaller environmental footprint—they require fewer materials to build and less energy to heat and cool, and they conserve land since they're built on a lot with an existing property.

KEY LENDER BENEFITS

- Our expanded ADU policy supports all Freddie Mac mortgage products and is not limited to our affordable offerings.
- Strong market demand can be met by offering borrowers more financing options on their purchase or renovation of properties with ADUs.
- With the use of Freddie Mac's CHOICERenovation[®] mortgage, a homeowner can renovate their existing residence to add an ADU or make an ADU renovation part of their home purchase transaction.
- Financing ADU additions opens another business channel as refinancing slows.

ADU REQUIREMENTS

PROPERTY TYPE / ELIGIBLE PROPERTIES

- One ADU is allowed on 1-, 2- and 3-unit properties.
- A 1-, 2- or 3-unit property with an ADU must comply with the zoning and land use requirements for the jurisdiction in which it is located. The zoning compliance must be either legal, legal non-conforming or locations with no zoning.
 - Exception: An ADU on a 1-unit property may have illegal zoning under certain conditions.
- ADUs that are manufactured homes are allowed under certain conditions.

ELIGIBLE MORTGAGE PRODUCTS

Any Freddie Mac mortgage offering is eligible, provided the mortgage meets all underwriting requirements for that offering.

LOAN PURPOSE

- Purchase
- Cash-out refinance
- No cash-out refinance
 - Note that our existing CHOICERenovation mortgage provides an option to use a no cash-out refinance mortgage to pay off short-term financing that financed ADU renovations, including the addition or renovation of an ADU that is completed prior to the note date.



APPRAISAL REQUIREMENTS

- The comparable sales requirements for properties with an ADU differ depending on whether the property complies with the zoning and land use requirements. Refer to *Single-Family Seller/Service Guide* (Guide) Section 5601.2 for zoning compliance and corresponding comparable requirements.
- Refer to ADU rental income requirements below for comparable sale and comparable rental requirements when rental income from an ADU on the subject 1-unit primary residence is used to qualify.

ADDITIONAL REQUIREMENTS

- For rental income requirements for an investment property, refer to Guide Section 5306.4.
- For rental income requirements for a Home Possible® Mortgage, refer to Guide Section 4501.9.

ADDITIONAL ADU REQUIREMENTS WHEN RENTAL INCOME FROM AN ADU ON A SUBJECT 1-UNIT PRIMARY RESIDENCE IS USED TO QUALIFY THE BORROWER

LOAN PURPOSE

- Purchase
- No cash-out refinance



RENTAL INCOME FROM THE ADU

- Rental income that is documented with a lease must not exceed 75% of the lease amount.
- Qualifying rental income cannot exceed 30% of total income used to qualify.

APPRAISAL REQUIREMENTS

- An appraisal report is required to support both the area's marketability of rented ADUs and the ADU's market rent when rental income is used to qualify. The appraiser must provide as part of their rental analysis:
 - At least one comparable sale with an ADU, and
 - At least one comparable rental ADU
- The appraiser must give a description of the ADU to include:
 - General condition of the unit
 - Square feet of finished area
 - Total number of rooms, including number of bedrooms and bathrooms
- An appraisal report is required. Should an automated collateral evaluation (ACE) appraisal waiver be offered by Loan Product Advisor®, it must not be accepted.
- The ADU property must comply with zoning and land use requirements (i.e., legal, legal non-conforming, no zoning).
- Rental income from illegal ADUs may not be used to qualify.

LANDLORD EDUCATION

- At least one qualifying borrower must participate in landlord education for purchase transactions unless the borrower has:
 - A minimum of one year of investment property management experience, or
 - ADU rental management experience

DELIVERY REQUIREMENTS

Sellers must deliver the valid value of "J66" for ULDD Data Point *Investor Feature Identifier* (Sort ID 368) for a mortgage with rental income from an accessory dwelling unit on a 1-unit primary residence. This delivery requirement is effective on or after September 1, 2022. Please note, sellers are encouraged to implement this change in advance of the effective date.

