

ADU Loan Program Guidelines



**Community Development Department
Housing Division**

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ADDITIONAL DWELLING UNIT (ADU) LOAN PROGRAM GUIDELINES

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ADU LOAN PROGRAM GUIDELINES

I. Purpose and Objectives

The purpose of the Accessory Dwelling Unit (ADU) Loan Program is to accelerate housing unit production in the City of El Cajon by means of facilitating accessory dwelling unit construction that may not otherwise be possible and by creating deed restricted rental units.

II. Program Overview

The ADU Loan Program, is administered by the City of El Cajon Community Development Department Housing Division and is designed to make funds available to help owner-occupied homeowners with a low interest loan to construct an ADU within City Limits. The City assistance is provided in the form of a non-forgivable loan and not a grant. Eligible costs include construction costs using funding from the State of California's Permanent Local Housing Allocation Program (PLHA).

ADU Loans will only be awarded to credit-qualified candidates for eligible projects. Each borrower/homeowner can receive no more than one loan up to \$100,000. The final loan amount will be determined by the Program Administrator and determined on an individual basis.

In exchange for the ADU loan, borrower/homeowner will sign a Deed of Trust in favor of the City for the amount of the loan, a Promissory Note and a Regulatory Agreement that requires the homeowner to maintain their ownership and occupancy of the primary residence on the property and rent the ADU at an affordable rent to an income qualified household. Property Owner/Borrower shall follow local, state, and federal laws when managing the ADU rental unit. ADUs shall be available for occupancy for a term of no less than 30 days and shall not be used as a short term vacation rental.

Priority assistance will be given to borrowers who reside in the City's Environmental Justice Areas (Exhibit A) or located in a Racially and Ethnically Concentrated Areas of Poverty (RECAPs) (Exhibit B). The ADU must be rented to income eligible households and must not have a total gross household income that exceeds 150% of the Area Median Income (AMI) published by the State of California Department of Housing and Community Development (HCD) to qualify for loan assistance. Also, the rent limit is capped at limits set by HCD (depending on the unit size). Assistance will not be provided more than once to any applicant or property.

Loan proceeds will be released directly to the approved homeowner's contractor to be used for eligible ADU constructions expenses including:

- Site preparation
- Architectural designs
- Permits
- Soil tests
- Property survey
- Energy reports
- Construction Costs Materials

Ineligible items include:

- Interior furnishing
- Moving expenses
- Landscaping
- Luxury Items

III. Loan Terms / Loan Documents

As mentioned above, the borrower would be required to sign a promissory note secured by a Deed of Trust that is recorded against the property creating a lien for the City’s loan. In addition, the property owner(s) will be required to execute a Loan Agreement and Regulatory Agreement. The Regulatory Agreement stipulates the terms and conditions that will be placed on the homeowner requiring the renting of the ADU to an eligible household at an affordable rent.

Prepayment of the loan shall be permitted without penalty. However, a transfer may accelerate the loan term unless the new owner assumes the existing loan term and restrictions.

The loan terms are described below. Simple interest accrues at a rate of up to 5% simple interest, deferred for up to 5 to 30 years in accordance with the terms of the Regulatory Agreement. The ADU must remain affordable during this term (at a minimum) unless the loan is repaid in full including any accrued interest.

Affordability Level (Rent and Income Limits of Renter) ¹	Term ²	Affordability Period ³	Interest Rate
<50% AMI (Very-Low Income)	30 Years	30 Years	0% deferred
51% AMI to 80% AMI (Low Income)	15 Years	15 Years	0% deferred
81% to 120% AMI (middle-income)	10 Years	10 Years	3% deferred
121% AMI to 150% AMI (high cost area)	5 Years	5 Years	5% deferred

¹Please refer to Tenant Requirements Rent and Income Limits as shown in Exhibit C.

²Loan term may be extended by Borrower’s request, subject to City approval. If approved, the affordability period will match the loan term.

³Must be rented for a minimum of 5 years at the affordability rent level selected.

Borrowers may opt out of the Regulatory Agreement by repaying the loan in full (principal plus accrued interest) and by meeting the minimum 5 year affordability period when they wish to opt out. The principal and all accrued interest will be due in full upon the earlier of:

- Borrower choosing to opt out of deed restriction after the minimum 5-year affordability period (loan must be paid in full).
- Primary Residence is no longer owner occupied.
- Sale or transfer of title of primary residence.
- Uncured default by borrower on the 1st Trust Deed Note.
- Uncured default by borrower on the City’s Regulatory Agreement and related Loan Documents.
- Discovery of any misrepresentation or fraud in connection with any aspect of the ADU Loan Program.
- Refer to the Regulatory Agreement for all terms and conditions.

IV. Borrower Eligibility and Underwriting Guidelines

A. Credit:

Must complete an application.

- Borrower and any Co-Borrowers must have a minimum credit score of 640.
- A credit report for all household income earners is required. All debt of all income earners will be used in the debt-to-income ratio calculations.
- All collections and judgments must be paid in full; no exceptions.
- Bankruptcy and Foreclosures within the last five years will result in a denial of assistance. The five-

year period begins after the final determination, not the time of the initial discharge.

- Child Support and Alimony payments must be current and with no arrears.
- Borrower and any Co-Borrowers must have sufficient equity in the property to obtain the City Loan.
- Primary residence must not have any outstanding code enforcement issues.
- Maximum combined loan-to-value ratio of 75% or less;
- Every individual on the note and title must have a social security number; and
- The Borrower or any Co-Borrower must be either a U.S. citizen or a permanent resident alien; the borrower must show proof of legal residency.

V. Eligibility of Tenant Household Income and Rent Calculation

Pursuant to the terms of the Regulatory Agreement, the Program Administrator will verify household income of each tenant and the rent amount that is being charged to the tenant prior to initial occupancy and annually during the term of the loan.

A. Tenant Household Income Limit (depending on selected loan term) must not exceed the following limits:

Household Size	1	2	3	4	5
50% of AMI* MHP	\$53,050	\$60,600	\$68,200	\$75,750	\$81,850
80% of AMI* MHP	\$84,880	\$96,960	\$109,120	\$121,200	\$130,960
Moderate Income (120% AMI)** HCD	\$100,400	\$114,700	\$129,050	\$143,400	\$154,850
150% of AMI** HCD	\$120,450	\$137,650	\$154,850	\$172,100	\$185,850

***Effective April 1, 2024 for MHP Limits and **Effective May 9, 2024 for HCD Moderate Income Limits.**

B. Household Income

Gross income of the tenant includes all sources of taxable and non-taxable income, derived from: salary, base pay, overtime and/or double-time compensation, part-time earnings, bonuses, commissions, dividends, interest, royalties, pensions, veterans administration compensation, alimony, child support, survivor benefits, foster care support, adoption care support, public assistance, social security benefits, unemployment compensation, income received from a trust, income received from business activities, bank accounts, investments, recurring contributions or gifts regularly received from entities or persons not residing in the dwelling, and any other source of income not listed above. Gross income is income before taxes, withholdings or deductions.

The eligibility calculation represents income of all adult household members regardless of the length of employment. The underwriting calculation represents income for all borrowers who will be on title and have minimum two years' work history.

The Program Administrator will do a full underwrite of the file and use its own income calculation independent of the borrower's income calculation.

Documentation regarding income must cover a minimum of two months and must be current within the most recent 30-day period preceding the loan closing. See each income type section below for required documentation.

Non-disclosure of any material fact or misrepresentation of information will result in permanent disqualification of the borrower and/or loan officer.

The Program Administrator, at its sole discretion, reserves the right to request any supporting documentation necessary to accurately calculate the household income and may use alternative methods

for calculating income based on information and documentation available.

C. Rent Limits

The maximum rent that can be charged to a household that is occupying an ADU is described below (by affordability limit). The ADU must remain affordable during this term (at a minimum) unless the loan is repayment in full including any accrued interest. The City must use HCD’s Multifamily Housing Program (MHP) Income and Rent Limits for Very-Low and Low-Income Households and HCD’s Official State Income Limits for Moderate Income Households, as described below:

1. Low Income Renters (Below 80% AMI)

MHP limits can be found at the following link: [MHP Income and Rent Limit Calculator](https://www.hcd.ca.gov/grants-funding/income-limits/state-and-federal-income-limits/docs/mhp_income_and_rent_limit_calculator.xlsx).
https://www.hcd.ca.gov/grants-funding/income-limits/state-and-federal-income-limits/docs/mhp_income_and_rent_limit_calculator.xlsx

2. Moderate Income Renters (Above 80.1-120% AMI)

Tenants must be households making below 150% of area median income (AMI), and the maximum monthly rent charged must be an “affordable rent,” including a reasonable utility allowance, as set forth in Health and Safety Code section 50053(b), and shall not exceed:

- For very low income households, 1/12th of the product of 30 percent times 50 percent of the area median income adjusted for family size appropriate for the unit.
- For low- income households, 1/12th of the product of 30 percent times 60 percent of the area median income adjusted for family size appropriate for the unit.
- For moderate-income households, 1/12th of the product of 30 percent times 110 percent of the area median income adjusted for family size appropriate for the unit.
- For higher costs area income households, 1/12th of the product of 30 percent times 140 percent of the area median income adjusted for family size appropriate for the unit.

The HCD method is calculated as follows: 1/12th of 30% of the AMI's income limit using the following assumed household size 1 person per Studio, 2 people per 1 BR, 3 people for 2 BR, 4 people per 3 BR, 5 people per 4 BR. The Table provides sample income limits depending on affordability level.

Affordability Level (Rent and Income Limits of Renter)*	Rent Maximum Gross Rent (A)	Minus Utility Allowance (B)	Net Maximum Rent*
<50% AMI (Very-Low Income) MHP	Studio: \$1,326 1 bedroom: \$1,420	Refer to County Utility Allowance Schedule	A-B
51% AMI to 80% AMI (Low Income) (per HCD, rent at 60%) MHP	Studio: \$2,122 1 bedroom \$2,273	Refer to County Utility Allowance Schedule	A-B
81% to 120% AMI (Moderate Income) (per HCD rent at 110%) HCD	Studio: \$2,300 1 bedroom \$2,629	Refer to County Utility Allowance Schedule	A-B
121% AMI to 150% AMI (high cost area) HCD	Studio: \$2,928 1 bedroom \$3,346	Refer to County Utility Allowance Schedule	A-B

*Note that rents are based on HCD formulas. Actual rents may be lower based on market conditions.

The City will post the official City ADU program limits in its website at www.elcajon.gov/housing

D. Cooling Off Period for Declined Applications

If an application is declined for not meeting the program requirements, there will be a 12-month cooling off period before a new application will be accepted.

The Program Administrator, at its sole discretion, reserves the right to refer to the original application to confirm consistency and may deny the application based on the previous application.

VI. Waiting List

Based on funds budgeted for the program, the Program Administrator may establish a priority waiting list system to ensure ADU Loan Program funds are used in areas of the city with the greatest priority need. The Administrator therefore may at its discretion utilize the following priority point system:

- 1 point - Households consisting of senior and/or disabled persons
- 4 points - Household income below 50% AMI
- 3 points - Household income between 50%-80 AMI
- 2 points- Household income between 81%-120% AMI
- 1 point- Household income between 120% AMI to 150% AMI
- 1 point - Located in an Environmental Justice Area or RECAP area within the City

On a case-by-case basis the Program Administrator may also utilize factors such as proximity to transportation and total construction cost of the ADU.

VII. Subordination Procedure

Staff will only consider subordinating the City lien to refinancing of first liens that are being proposed for purpose of obtaining a fixed rate loan and/or lower payments. All subordination fees shall be paid by the property owner. Requests that are for the following purposes will be denied: Cash out: Removing equity from the property for cash; Debt consolidation: Removing equity from the property for money to be paid directly to creditors to pay off debt; or obtain an adjustable-rate mortgage: Any loan product that is not fixed for the entire life of the loan.

VIII. ADU Standards

ADU projects financed through ADU Program Loans must meet the requirements and regulations in the El Cajon Municipal Code (ECMC 17.140.180) and all other applicable laws.

IX. ADU Loan Application Process

Staff must receive a complete application packet, which will include the following completed and signed forms:

- City's Loan Application
- Sign all Loan Disclosures
- Demonstrate the financial ability to construct the ADU with City assistance (note City assistance does not cover 100% of the construction and related costs)

The following documents pertaining to the existing mortgage on the primary residence will also be required:

- Copy of Form Deed of Trust
- Copy of Form Promissory Note
- Proof of Fire Insurance and Homeowners Insurance
- Copy of most recent Property Tax Bill
- Most recent Mortgage Statement

Program Administrator shall make the initial assessment as to whether the individual would qualify for an ADU Loan, based upon the underwriting guidelines and borrower eligibility. All findings shall be noted in the

applicant's file.

Upon completion of the application review, staff shall send a letter to the applicant notifying them of their status. The letter shall include a phone number and contact person. This letter shall also provide details regarding the processing time and procedures.

X. ADU Contractor Eligibility Process

Applicants must receive three bids for construction of ADUs on their property.

The selected contractor must be approved by the City by providing the following documents:

- State Contractor's License
- El Cajon Business License
- Insurance, including:
 - General Liability insurance in the amount of \$2 Million dollars (Additional Insured Endorsement designating "City of El Cajon, its elected officials, employees and volunteers");
 - Proof of Commercial Auto Liability insurance (any auto) in the amount of \$1 Million dollars; and
 - Proof of Worker's Compensation insurance.

Contractor must obtain building permits for any rehabilitation work that requires a permit for repair or replacement. Additional information can be obtained by contacting the City of El Cajon's Building Safety Department at 619-441-1726; option 2, or email building@elcajon.gov. Contractors will also be required to sign a Notice to Proceed regarding the scope of work and policies for reimbursement.

All applications submitted before the deadline will be reviewed upon submission. The number of project applications awarded will be determined by the amount of available funding and financing need.

A. Notification of Award

Once the Program Administrator has made the final determination, staff will provide written notice of the results to each applicant. For applicants that have been approved, an Affidavit of Responsibility, Deed of Trust, Promissory Note, and Regulatory Agreement shall be included in the correspondence. The Loan documents shall be on forms previously approved by the City Attorney's Office. All documents must be signed and returned before a loan is made and any work may begin.

B. Affidavit of Responsibility

The Affidavit of Responsibility requires that the ADU Loan recipient indemnify, hold harmless and release the City from any claims or losses for any disputes that might arise from the work funded by the loan or the City's making of the loan. This includes any dispute between the borrower and a contractor regarding the quality of work and materials. Each recipient must indicate which contractor they have chosen to conduct work and to sign and date the Affidavit of Responsibility.

Once staff has received the signed documents, a letter will be sent to the licensed contractor indicating work may begin after building permits have been issued, and shall indicate the name of the borrower, address, loan amount, and the process for payment.

Once all permitted work has been completed and approved by the City, the loan will be available to close and the Deed of Trust and Regulatory Agreement will then be recorded through the County Recorder's Office. A copy will be given to the borrower and appropriate Finance Department Staff, and a copy will be placed in the file.

C. Loan Disbursements to Contractors

Upon completion of all ADU construction, as appropriate, the licensed contractor must have the borrower sign and staff review the payment invoice and Request for Payment. The licensed contractor must then submit the Request for Payment invoice to the Program Administrator. All required inspections during the construction period will be conducted in accordance with the City's building permit requirements. Upon completion of all work, a Final Inspection will be conducted prior to payment. Housing Staff will approve contractor payment after the Final inspection and place inspection documentation in the applicant's file.

Staff will submit all invoices and prepare a request for payment to the City Finance Department in accordance with the City's standard payment process and schedule. All current insurance and license information must be on file with the City in order to process payment.

The following typical Payment Schedule should be followed for disbursement requests, unless more frequent disbursements are authorized by the Building Inspector:

- Advance of 10% of construction work pursuant to the Construction Agreement
- Progress at 35% of completion
- Progress at 60% of completion
- Progress at 90% of completion
- Retention/Final Payment

D. Affordable Rents & Annual Monitoring

ADUs constructed with funding from the ADU Loan Program will subject to rental affordability requirements set forth in a signed and recorded regulatory agreement. Tenants must be households making below 150% of area median income (AMI), and the maximum monthly rent charged must be at an "affordable rent" as described above and further detailed in the Regulatory Agreement.

Upon ADU completion and annually each year during of the term of the loan, the Borrower shall certify to the City their occupancy of the main residence and the affordability of the rented ADU. The Borrower shall submit such documentary proof as requested by the City regarding their occupancy and the renter's gross household income at least annually.

XI. Loan Servicing

The City of El Cajon's Community Development Department Housing Division will service the portfolio of ADU loans in-house, and will be responsible for the following:

- Fund Disbursement Services;
- Loan Servicing and Portfolio Management; and
- Delinquency and Default Management.

The Housing Division reserves the right to contract with a third party for loan servicing or loss mitigation services.

A. Loan Default Procedures

Should staff receive notification that non-payment of the first trust deed or a default on the City of El Cajon's second trust deed has occurred, the City Attorney's Office will be notified, and the following process will be followed:

- A letter will be sent to the Borrower requesting documentation showing proof of payment or an

- explanation of non-payment; Notice of Default will be sent if no response is received and if Borrower remains in non-payment status; and
- Notice of Sale will be published and normal sale procedures will be followed.

B. Assignment of Rents

Assignment of Rents shall be set forth in the signed Deed of Trust.

C. Loan Payoff

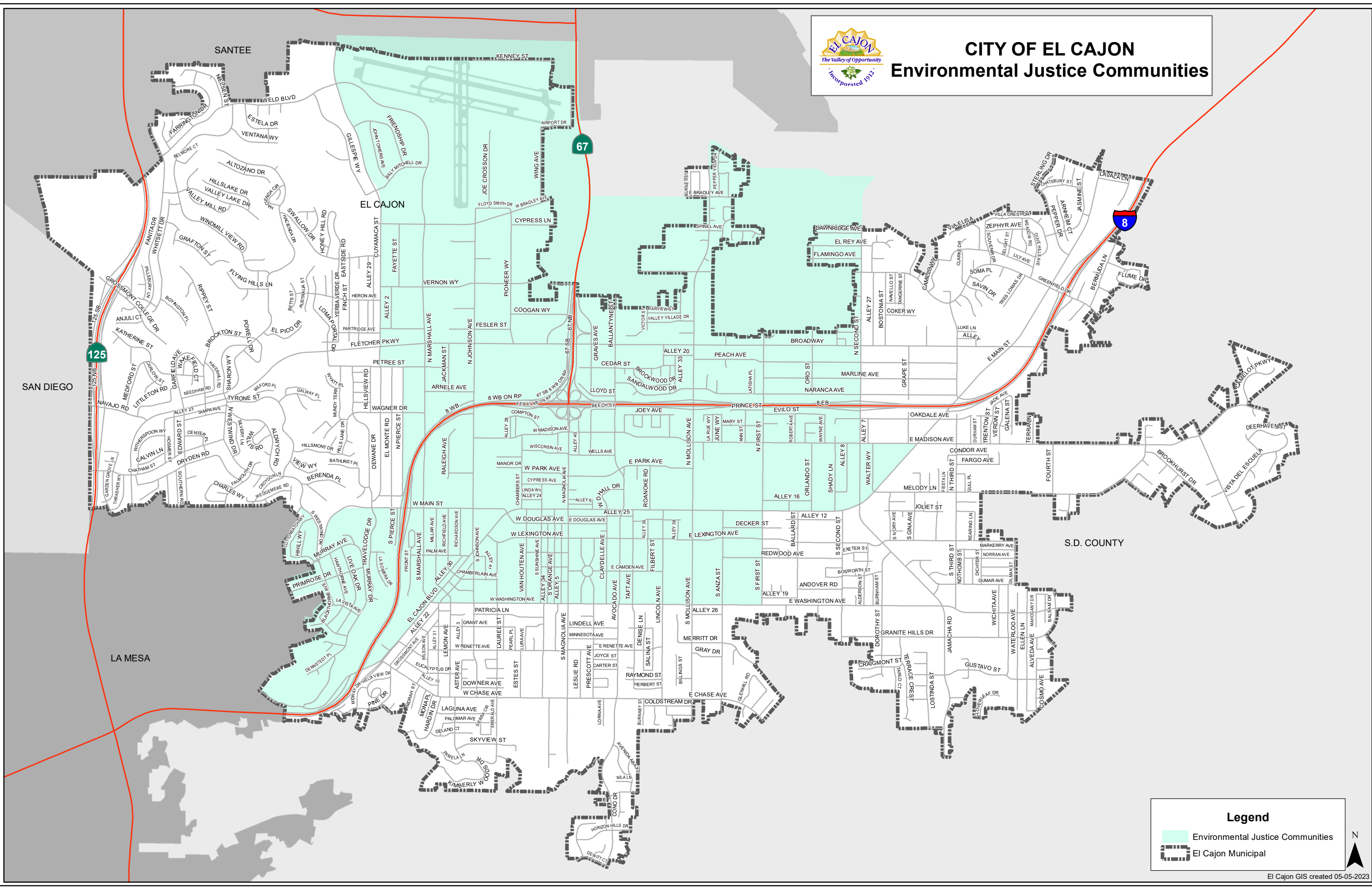
Staff must review all requests for payoff demands. A letter will be generated, in the form of a payoff demand, indicating the borrower's name and address, payoff amount, and procedures for payoff. Upon full repayment of a loan, the Program Administrator will execute and record a Reconveyance to the Deed and Release of the Regulatory Agreement. Originals of the Promissory Note will only be relinquished upon full payment of the loan. An administrative fee will be charged for each transaction, equal to the cost of recording and staff time in processing the payoff demands.

EXHIBIT A

ENVIRONMENTAL JUSTICE AREAS MAP



CITY OF EL CAJON Environmental Justice Communities



Legend

- Environmental Justice Communities
- El Cajon Municipal



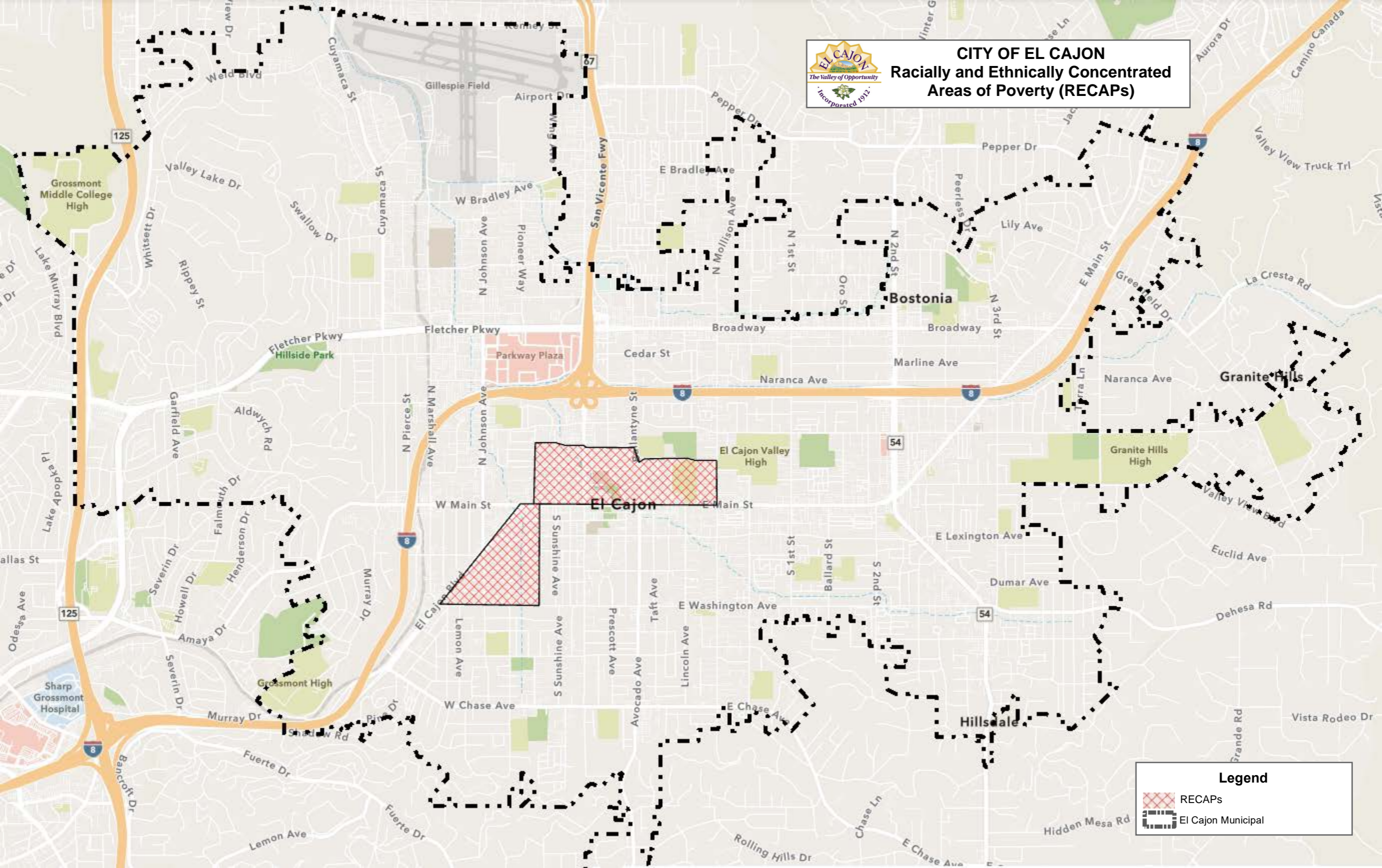
EXHIBIT B

RACIALLY AND ETHNICALLY CONCENTRATED AREAS OF POVERTY (RECAPS) MAP



CITY OF EL CAJON

Racially and Ethnically Concentrated Areas of Poverty (RECAPs)



Legend

-  RECAPs
-  El Cajon Municipal

EXHIBIT C

TENANT INCOME LIMITS



City of El Cajon ADU Loan Program

Tenant Income Limits (depending on selected loan term)

Household Size	1	2	3	4	5	Interest Rate	Term
50% of AMI* MHP (0% to 50% AMI)	\$53,050	\$60,600	\$68,200	\$75,750	\$81,850	0%	30 Year
80% of AMI* MHP (51%-80% AMI)	\$84,880	\$96,960	\$109,120	\$121,200	\$130,960	0%	15 Year
Moderate Income 120% AMI* HCD (81%-120% AMI)	\$100,400	\$114,700	\$129,050	\$143,400	\$154,850	3%	10 Year
High Cost Area 150% of AMI* HCD (121%-150% AMI)	\$120,450	\$137,650	\$154,850	\$172,100	\$185,850	5%	5 Year

*CA Department of Housing and Community Development and Multifamily Housing Program
<https://www.hcd.ca.gov/grants-and-funding/income-limits/state-and-federal-income-rent-and-loan-value-limits> (updated annually, MHP Effective 4/1/2024 & HCD 5/9/2024)

Max Gross Tenant Rent Limits (depending on selected loan term)

Bedroom Size	0	1	2	3	Notes
50% of AMI* MHP	\$1,326	\$1,420	\$1,705	\$1,970	MHP
80% of AMI* MHP	\$2,122	\$2,273	\$2,728	\$3,152	MHP
Moderate Income (120% AMI)* HCD	\$2,300	\$2,629	\$2,958	\$3,286	H&S Code
High Cost Area (150% AMI)* HCD	\$2,928	\$3,346	\$3,764	\$4,183	H&S Code

*minus applicable utility allowance (updated annually, MHP Effective 4/1/2024 & HCD 5/9/2024)