

**OVERVIEW**

The ADU Pilot Program is an agreement between CalHFA and Self Help Enterprises (SHE) to provide financing for the building of Accessory Dwelling Units by working with the City of Clovis Cottage Homes program. The funds loaned to SHE by CalHFA provides financing for the construction of the ADU. Below is an outline of the process SHE plans to use starting with the homeowner (borrower) application for a loan, through certificate of occupancy and how payments made by the homeowner to SHE for the ADU loan will be managed. This is a guideline to use moving forward. Each phase is broken down to the action, process and details necessary to obtain success in the program.

**Phase Plan of Action**

<b>I</b>	Homeowner submits application to SHE and obtains a pre-qualification subject to Appraisal and CLTV not exceeding 100%. At this time, SHE will provide information to the Homeowner regarding Landlord and Tenant Rights.
<b>II</b>	Homeowner selects plan from City’s available plans and obtains a minimum of three bids
<b>III</b>	<ul style="list-style-type: none"> <li>• Homeowner submits bid from selected contractor along with a check for the appraisal.</li> <li>• SHE request appraisal of existing property with proposed ADU based on plans and contractors estimate.</li> <li>• If appraisal reflects adequate Equity to cover all property indebtedness not exceeding 100% CLTV, underwriting is completed, the Loan is approved, and documents are prepared and executed.</li> <li>• If adequate equity is not available, homeowner may choose to reduce the scope of work as long as it doesn’t affect value or if homeowner has personal funds available to contribute that will result in less than 100% CLTV.</li> <li>• If adequate equity cannot be obtained to cover all indebtedness, the loan will be denied.</li> <li>• Once funded, SHE can request funds from CalHFA for the next month’s projects. There is a process for disbursement of funds to SHE and subsequent reporting.</li> </ul>
<b>IV</b>	Construction Contract is executed. Fees paid, approved plans followed, permits issued for all aspects of the build, i.e. foundation, framing, roof, electrical, HVAC, gas, plumbing. Contractor’s licenses and insurances are verified and Homeowner

	obtains Course of Construction Insurance, listing SHE as a mortgagee/ loss payee, then Construction Commences.
<b>V</b>	A SHE Construction Specialist will perform inspections upon request from the Homeowner/Contractor for payments submitted in accordance with the draw schedule identified in the construction contract prior to the release of funds.
<b>VI</b>	Construction completed. All inspections signed off, mailing address issued by Postmaster, and occupancy certificate is issued. Homeowner converts Course of Construction policy to Homeowner Policy. Homeowner may now rent/allow occupancy of the unit.
<b>VII</b>	CalHFA requires follow up reporting quarterly for each site, which includes date funds were requested/disbursed, Pre- Construction, percentage completed, comments, expected completion date, Post Construction values, occupancy certificate issue date and pictures.

## **PHASE I**

Homeowners possessing a designated lot that has been identified in the City of Clovis Cottage Home project area may seek assistance for financing from Self-Help Enterprises for the development of basic floor plans preapproved and provided free of charge by the City as approved by the City Manager 4/2/18 (Agenda Item CC-F-4). SHE will consult with CalHFA prior to processing an application for funding from homeowners not residing in the designated project area or wishing to use a plan other than those provided by the City of Clovis, as long as the project will be approved by the City. The applicants are encouraged to arrange a meeting with city staff to review program requirements.

Homeowner completes ADU Loan application, provides all necessary documents to determine income eligibility, credit worthiness, and property ownership and submits to Self-Help Enterprises for review and issuance of a pre-qualification.

SHE will review the loan based on general underwriting criteria as follows:

1. Income Determination: Income will be determined using all income received for persons over 18 years of age whom are on title to the property.

2. Creditworthiness: Potential homeowners are subject to a credit review to determine credit worthiness. Credit review will consist of a current credit report, verification of mortgage and/or supplemental credit references. Factors in determining credit worthiness include timeliness of all payments over the last 12 months, no collection accounts, and a minimum 640 FICO score.

3. Affordability Calculation:

a) Applicants provided with amortized loans are subject to housing and debt ratios. Housing related indebtedness (PITI) to income shall not exceed 35%, and the ratio for all debts shall not exceed 45%.

b) Income earned from rent will be used to determine overall debt ratio.

c) An appraisal will be required to ensure LTV does not exceed 100% of total property value.

4. Property Eligibility: Must be owner occupied; be zoned appropriately and able to meet all aspects of the City of Clovis' program.

**Example of required documents:** signed and dated loan application, required initial disclosures, credit report, most recent 2 current paystubs, Verification of Employment, most recent W2, 3 years tax returns or transcripts (self-employed documentation includes YTD P/L), credit report.

SHE will review these items along with the appraisal, executed contract for construction and document the underwriting of the loan. The homeowner applying for ADU funds from SHE must meet the income guidelines of CalHFA. The homeowner may not exceed the maximum income limit. Income is calculated by using the guidelines provided at the CalHFA website:

<https://www.calhfa.ca.gov/homeownership/forms/index.htm>

If homeowner meets all funding requirements related to income, credit and ownership, Self-Help Enterprises will issue a pre-qualification letter indicating funding is subject to an appraisal that will include the ADU and must result in no more than a 100% CLTV.

Homeowner is advised to identify licensed contractors and obtain bids (minimum of three recommended) for submittal to Self-Help Enterprises to order appraisal. Homeowners should not enter into contract with a contractor until loan is fully approved and contractor eligibility has been confirmed.

## **PHASE II**

After selecting an ADU plan from the City's available preapproved plans the homeowners will need to obtain bids from contractors for the construction of the ADU and any other associated costs (SHE will encourage homeowners to obtain three contractor bids). The homeowner's site must comply with all aspects of the city's zoning and regulations.

## **PHASE III**

Homeowners will provide plans and accepted bid documents to Self-Help Enterprises along with a check for an appraisal that will be used to identify the ADU and existing property value upon completion of construction of the ADU before a loan can be approved.

Upon receipt of the appraisal and determination of after construction value that will result in a CLTV that doesn't exceed 100%, the application will undergo final underwriting and approval by SHE, the homeowner will receive the loan approval letter, SHE will draw up loan documents for the homeowner to execute and arrange loan closing for the homeowner, which includes recording of the Deed of Trust that secures the promissory note executed by the homeowner. Upon funding of the loan, interest only payments are required during the construction period, with principal loan payments from the homeowner/borrower suspended until the Accessory Dwelling unit is built and the occupancy certificate is received. Once the occupancy certificate is issued, the owners principal and interest payments will be due within 30 days.

**Examples of the required documents:** Underwriter approval, Letter of Loan Approval to homeowner, Required Consumer Closing Disclosure, Promissory Note, Deed of Trust, 3-day Rescission, etc.

Process for Disbursements to SHE and Quarterly reports are as follows: SHE will request funds by using the 'ADU Draw Request Form'. The form must be filled out entirely and executed by a representative of SHE. Information required will be a list of the loans, by project site (which includes the address) that are expected to fund in the following month. Once CalHFA confirms the information, funds will be wire direct to SHE within 10 days. Once the initial wire has been sent to SHE, subsequent quarterly reports must be received by CalHFA using the 'Quarterly Progress Form' in which one form will be filled out for each site location providing the detailed progress of the construction. SHE will approve these summaries. Once the project reaches 50%, pictures will accompany the report. The 'Project Summary of Disbursements (by Project)' will be used to ensure CalHFA and SHE are aware of funds that are available. The 'Project Summary of Disbursements' form will track funds disbursed, funds recycled for another project, funds paid back to CalHFA, and funds available for future projects. All three documents will be made available from CalHFA to SHE via access to CalHFA's portal by using a SmartSheet. SHE will be able to access and update information at any time. **Example of required documents:** ADU Request for Draw, Quarterly Report Form Status Update, Project Summary of Disbursements.

Upon the wire of funds to SHE, CalHFA will commence calculation of the interest rate based on the amount of funds 'drawn' for the project.

## PHASE IV

Once the 3-day rescission has passed, verification of contractor license and insurance and the homeowners has obtained course of construction insurance listing SHE as an additional mortgagee/loss payee is received, the contractor can begin construction. Construction will follow in phases.

### Pre-Development

- Permits/fees, offsite, street, curbs, gutters, land cleared, slab forms, rough plumbing, electrical box, one car driveway, sewer, electrical tie in

### Development

- Foundation poured, additional electrical, gas and plumbing hook ups
- Framing, exterior walls, roof truss, and roofing
- Interior walls, insulation, HVAC, plumbing and electrical fixtures, drywall, sheetrock, taping, texture, paint/trim, lighting, water heater
- Flooring, doors, cabinets, appliances, landscaping if necessary

## PHASE V

Homeowner/Contractor will comply and ensure all required city inspections are completed, and homeowner will communicate the project progress to SHE no less than every two weeks and request payments according to the draw schedule outlined in the construction contract. Prior to payment release SHE Construction Specialist will inspect property to ensure work associated with payment

request has been completed and approved by City inspector (if required). Each homeowner is encouraged to communicate any questions they have to the city and contractor in order to become educated in the process of the build. This may avoid unexpected surprises or false expectations.

Part of the reporting required will allow CalHFA to see the progress completed by each unit as the construction continues. Each project site will have an estimated start & completion date.

At PHASE III, there are a number of required steps during the construction work for the homeowner, city inspectors and SHE.

## **PHASE VI**

Upon completion of construction, it is necessary to obtain an occupancy certificate indicating the project has completed construction and is ready for occupancy. The homeowner must also obtain an address dedication from the Office of the local Postmaster and convert their Course of Construction Insurance Policy back to a Homeowner Policy listing SHE as mortgagee/loss payee.

The owner may now allow occupancy of the unit.

The homeowner begins installment payments on the Note/loan to SHE. The homeowner may pay extra on the loan with no pre-payment penalties, or pay off the loan early if they refinance.

## **PHASE VII**

SHE is required to complete the Quarterly Progress Report for each site and update the information via a link to the document at CalHFA. Once the building of the site is completed, and the occupancy certificate is issued, SHE will monitor (borrower) monthly installments as agreed upon, and will ensure the fair market rent established is upheld for the tenant for the time stated in the agreement.