

ADU Loan Program



ADU LOAN PROGRAM LENDER TRAINING

March 2026

Introduction

Coming in March, MassHousing will be introducing a new ADU Loan Program (ADULP) to support low-and-moderate income homeowners to construct an Accessory Dwelling Unit on a lot they currently reside at as their primary place of residence.

Lenders will enable the construction of the ADU by tapping into the homeowner's equity with MassHousing's ADULP with a matching 0% deferred loan

What we will be covering in the next few days:

- *Product Specifics*
- *Role of the Lender*
- *Project Management*
- *Underwriting an ADULP*
- *Lock a loan in masshousing.com*

What is an ADU?



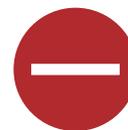
ADUs are residential living spaces that are located on the same lot as another dwelling. ADUs can be within a home (example: basement apartment) or detached (example: garage/shed conversion).



ADUs can be built by right in single-family zoning districts. Approval by a local zoning board is not required.



ADUs can be no larger than half the gross floor area of the principal dwelling, or 900 square feet, whichever is smaller (example: if a home is 1,700 square feet, then the maximum size for the ADU would be 850 square feet).



ADUs must have a separate entrance, either directly from outside or through a hall or corridor shared with the principal residence.



ADUs must have sleeping, cooking, and sanitary facilities.



The regulations include details about what additional rules cities and towns can implement and which they cannot. If allowed by the regulations and instituted by a city or town, ADUs must comply.

ADULP (Amortized)	
ADULP 20 YR Amortized – Product 5009	
ADULP 0% Deferred -Match	
Transaction Type	<ul style="list-style-type: none"> Subordinate Mortgage
Interest Rate	<ul style="list-style-type: none"> Refer to MassHousing rate sheet
Income Limits	<ul style="list-style-type: none"> Up to 135% of AMI Income Limit
Loan Limits	<p>Amortized:</p> <ul style="list-style-type: none"> Detached unit: \$150,000 (<i>Grid for ADU 0% Match Loan referenced below</i>) Attached unit: \$100,000 (<i>Grid for ADU 0% Match Loan referenced below</i>) <p>Deferred (<i>match</i>):</p> <ul style="list-style-type: none"> MH will match the ADU loan amount up to the values below: <ul style="list-style-type: none"> Detached unit: Up to maximum of \$100,000 Attached unit: Up to maximum of \$50,000
Loan Term	<ul style="list-style-type: none"> Amortized Loans -20 Year 0% Deferred Loans- Due upon payoff of ADULP Amortized Loan
Property Type	<ul style="list-style-type: none"> 1 Unit
Partners	<ul style="list-style-type: none"> Lender
MassHousing Processing Fee	<ul style="list-style-type: none"> \$300 – Amortized NA - Deferred
Lender Fee	<ul style="list-style-type: none"> Origination fee up to 175 basis points may be charged by the lender to the borrower
Eligible Borrower	<ul style="list-style-type: none"> All owner-occupied 1 Unit incomes that meet the income limit guidelines Any person(s) who does not have an ownership interest in the property should NOT be on any closing documents or be a part of the loan transaction. Trusts will be pre-reviewed by MassHousing. Life Estates are not eligible for this Program.
Credit Score	<ul style="list-style-type: none"> 640
Max DTI	<ul style="list-style-type: none"> 50%
Max LTV/CLTV	<ul style="list-style-type: none"> 95/95% (<i>based off appraised value, "subject to" completion</i>)
Lien Position	<ul style="list-style-type: none"> The ADULP Loan Program has been designed as a second mortgage loan program. MassHousing will assume a third position behind a 1st

	and 2 nd DPA or equity line, making sure the borrower meets all the eligibility requirements.
Occupancy	<ul style="list-style-type: none"> • Owner Occupied (<i>Subject property must be the borrower's current primary residence</i>)
Appraisal	<ul style="list-style-type: none"> • Full Appraisal Required
Closing Costs and Fees	<ul style="list-style-type: none"> • Borrowers will be responsible for all closing costs and fees (reasonable) which can be rolled into the loan
Required Documents and MassHousing Forms	<ul style="list-style-type: none"> • Click here for Document Loan Delivery Checklist and Doc Set LINK
Right of Recission	<ul style="list-style-type: none"> • Required
Eligible Improvements	<ul style="list-style-type: none"> • Construction of an ADU which is typically an additional living area independent of the primary dwelling that may have been added to, created within, or detached from a primary one-unit dwelling. The ADU must <u>provide</u> for living, sleeping, cooking, and bathroom facilities and be on the same parcel as the primary one-unit dwelling.
Contingency Fee	<ul style="list-style-type: none"> • 10% Contingency Required
Maximum Construction Timeframe	<ul style="list-style-type: none"> • Borrowers applying for mortgage financing have a maximum time limit of six months from the Note date to complete the work.
Final Completion	<ul style="list-style-type: none"> • Final Completion Documentation <u>depending</u> on the repairs, i.e. permits signed off by city/town, COO, Completion Certificate if using an Appraisal
Pre-Payment Penalties	<ul style="list-style-type: none"> • N/A

Additional Notes

Renovation-related costs that may be considered as part of the total renovation costs include:

- property inspection fees;
- costs and fees for the title update;
- costs for required permits;
- Appraisal

Note: An amount for sweat equity may not be factored into the renovation costs.

Role of the Lender



Originate, underwrite, disclose and close the loan in accordance with MassHousing Guidelines



Review and approve plans & specifications, evaluating quantity, quality and cost of the construction



Review and approve permits, construction schedule, cost estimates, disbursement schedule, and vet contractors



Monitor completion of work per plans and specs and construction schedule



Monitor release of loan proceeds for completed work



Ensure that clear title to the property is maintained



Obtain all necessary documents for Final Completion

Lenders must submit a complete URLA with all data regarding the construction loan. We are preparing guidance documentation on what we will be looking for regarding this.

ADU Loan Program Process – End-to-End Flow

Pre-Development (Borrower)

Borrower Completes Pre-Development
Project must be **"Dig Ready"** at Loan Lock
Contracts, Plans, Specs, Permits provided & Applies to Lender



Origination & Closing (Lender)

Loan Originated and Registered on **emasshousing.com**
Disclosed, Underwritten, Closed
Loan delivered immediately after closing
(Renovation not required to be complete)



MassHousing Review & Funding (MassHousing)

Pre-Purchase Review Completed
Loan Funded
Loan Onboarded for Servicing



Construction & Escrow (Lender)

Lender holds Renovation Funds in Escrow
Inspections and Draw Disbursements Completed
Monthly Project Status Reported to MassHousing



Completion & Close-Out (Lender)

Project Completed and Inspected
Completion Documents Uploaded
Escrow Closed
Excess Funds Applied to Borrower Principal



Ongoing Servicing (MassHousing)

MassHousing Services the Loan

PROJECT MANAGEMENT

Pre-Development

The Pre-Development of an ADU project must be complete, and the project must be “Dig Ready” before the Lender can lock an ADULP loan in emasshousing.com.

The Borrower must provide the Lender the following documents (*but not limited to*) as part of the Pre-Development Pkg. These documents could differ depending on each city/town ADU requirements:

- Architect
- Contracts/Disbursement Schedule
- Contractor Insurance Policy and License
- Plans and Specs
- Permits
- Title V (if applicable)
- Utility Hook Ups
- Soft Costs
- Feasibility Study: A study that shows an ADU can be built on the site. This could include a site visit, zoning, utility access review, etc.

Contractor Requirements

- All renovation work must be performed by a licensed contractor or subcontractor under state or local law for the specific trade or type of renovations being performed.
- The borrower must choose the contractor to perform the needed renovation, subject to the lender's determination that the contractor is qualified and experienced, has all appropriate credentials required by the state, is financially able to perform the duties necessary to complete the renovation work in a timely manner.
- The lender may not choose the contractor or refer the borrower to any one specific contractor.

Plans and Specs

- The plans and specifications must be prepared by a registered, licensed, or certified general contractor, renovation consultant, or architect. The plans and specifications should fully describe all of the work to be done and provide an indication of when various jobs or stages of completion will be scheduled (including both the start and completion dates).
- The lender must use the plans and specifications to document and evaluate the quantity, quality, and cost of the renovation work that is to be done and to determine the amount of financing that will be available. These plans and specifications also must be used by the appraiser in the development of their opinion of the “as completed” value of the property.

Renovation Escrow Account

- The renovation costs (less any draws made at closing) and the contingency reserve, must be deposited into an escrow account for the benefit of the borrower.
- Renovation funds may only be disbursed using the following processes: a check issued jointly to the borrower and the contractor.
- After renovations are complete, all funds remaining in this account will be applied to the unpaid principal balance of the loan.
- The lender must obtain periodic inspections to confirm the work is being completed as planned prior to the issuance of additional escrow draws.
- Lender must document proof of funds if borrower is using other sources of funds.

Contingency Reserve

- The contingency reserve should cover all renovation-related costs including labor, materials, fees, permits, plans and specifications, inspection costs, and other expenses related to the renovation.
- A contingency reserve equal to 10% of the total costs of the repairs and renovation work must be established to cover required unforeseen repairs or deficiencies that are discovered during the renovation.
- The contingency reserve may be considered as part of the total renovation costs or the borrower may fund it separately and may be released only if required, necessary, and unforeseen repairs or deficiencies are discovered during the renovation.
- Unused contingency funds, unless they were received directly from the borrower, must be used to reduce the outstanding balance of the renovation loan after all of the renovation work has been completed and the certification of completion has been obtained.

Title – Lien Waiver – Insurance Updates

- Before a lender makes the final disbursement upon the completion of renovation, it must obtain a lien waiver from the contractor, all subcontractors, and suppliers or a clear title report that releases all contractor, subcontractor, and supplier liens.
- The lender must obtain all necessary lien releases or take any other action that may be required to ensure title to the property is clear of all liens and encumbrances.
- Concurrent with the last disbursement of funds, the lender must obtain a title update through the date the renovation was completed, to ensure the absence of any mechanic's or materialmen's liens.
- The lender also must retain in the loan file a certification regarding the adequacy of the property insurance following completion of the renovation.
- The certification must confirm the coverage has been increased, if necessary, to comply with MassHousing's standard property and flood insurance requirements.

Completion Certificate

- Following completion of the renovation work, the lender must obtain a certification of completion stating the renovation was completed in accordance with the submitted plans and specifications.
- The certification must be documented on the *Appraisal Update and/or Completion Report* .
- The Appraiser's Update and Completion Report must confirm all "subject to" items listed on the appraisal were completed.
- The lender must also obtain a certificate of occupancy upon completion of renovation if it is required by local authorities for the type of renovation work that was completed.

Resources

The following is available on emasshousing.com under the Second Mortgage Lender Resource Page:

- Seller Guide
- Product Matrix
- ADULP Doc Sets for Closing
- Project Management Documents
- Training:
 - Lender Product Training
 - Underwriting Training
 - ADULP Lock Training

FAQs

Q: Can a borrower be its own GC on the project?

A: Yes. A Borrower can be its own GC on the project, and must be a licensed GC. Please note, sweat equity is allowed to be included into the loan, only materials for the work they are engaged in can be included.

Q: Is there a limit on disbursements?

A: The amount of disbursements will depend on the size of the project and will up to the Lender's discretion.

Q: What is the timeline for project completion?

A: Project Completion must be 180 from Note date.

Q: Can the Lender charge the Borrower for Project Monitoring/Inspection Fees?

A: Yes. Reasonable project monitoring and Inspection fees can be charged to the borrower.

Q: Will an initial upfront fee to the contractor at closing be allowed?

A: TBD – We are considering this and are working on what that amount would look like.

Additional Information

- Amortized Loan- Rate could **change monthly** and will be set by MassHousing.
- The stated Rate will be published on the Rate Sheet with the other Repair Loan Programs.
- You can "Subscribe" on emasshousing.com to sign up for the Rate Sheet to access the ADU Rates.
- 60 Day Lock-loan must be delivered to MassHousing by expiration date.
- Pricing will be 100.500, the 0.500 being SRP

Final Thoughts



Questions



Sign up Commitment



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Contacts