

MassHousing ADU Loan Program “ADULP” supports low and moderate homeowners desiring to construct an Accessory Dwelling Unit “ADU” on a lot they currently reside as their primary 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 option.

ADUs may be constructed internal to the existing primary residence, like converting a basement into an apartment, attachment to the primary residence as a new construction addition, or detached unit like a cottage.



MassHousing’s ADULP features:

- Competitive fixed rate financing with a higher CLTV than HELOCs offered in today’s market.
- Lenders maintain their relationship with the home owners through the construction phase.
- Home owners maintain their existing low-rate first mortgage intact.
- Lenders who take advantage of the ADULP options will help home owners realize the home’s full potential by creating an additional housing unit.

See below for more details.

## ADULP (Amortized)

### ADU Loan Program Key features include:

- Up to 95% loan-to-value (CLTV) financing
- Customary Closing Costs and Fees may be rolled into the loan
- Flexible Underwriting Guidelines
- 640 Minimum Credit Score
- MassHousing Services all ADU Loans
- Lender manages construction disbursements and oversight

### ADU Loan 20 YR Amortized

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|-------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Transaction Type        | <ul style="list-style-type: none"> <li>• Subordinate Mortgage</li> </ul>                                                                                                                                                                 |
| Income Limits           | <ul style="list-style-type: none"> <li>• Up to 135% of AMI</li> <li>• <a href="#">Income Limits</a></li> </ul>                                                                                                                           |
| Interest Rate           | <ul style="list-style-type: none"> <li>• TBD - Rate to be determined by HO</li> </ul>                                                                                                                                                    |
| Loan Limits             | <ul style="list-style-type: none"> <li>• Detached unit: \$150,000 (<i>Grid for <b>ADU 0% Match Loan</b> referenced below</i>)</li> <li>• Attached unit: \$100,000 (<i>Grid for <b>ADU 0% Match Loan</b> referenced below</i>)</li> </ul> |
| Loan Term               | <ul style="list-style-type: none"> <li>• 20 Year amortization</li> </ul>                                                                                                                                                                 |
| Occupancy / Eligibility | <ul style="list-style-type: none"> <li>• Owner Occupied (<i>Subject property must be the borrower's current primary residence</i>)</li> </ul>                                                                                            |
| Property Type           | <ul style="list-style-type: none"> <li>• 1 Unit</li> </ul>                                                                                                                                                                               |
| Max LTV/CLTV            | <ul style="list-style-type: none"> <li>• 95/95% (<i>based off appraised value, "subject to" completion</i>)</li> </ul>                                                                                                                   |
| Max DTI                 | <ul style="list-style-type: none"> <li>• 50%</li> </ul>                                                                                                                                                                                  |
| Minimum Credit Score    | <ul style="list-style-type: none"> <li>• 640</li> </ul>                                                                                                                                                                                  |
| Closing Costs and Fees  | <ul style="list-style-type: none"> <li>• Borrower(s) are responsible for all closing costs and fees, and may finance customary costs and fees not to exceed maximum CLTV</li> </ul>                                                      |

## ADULP 0% (Deferred)

### ADU Loan Program Key features include:

- Up to 95% loan-to-value (CLTV) financing
- Customary Closing Costs and Fees may be rolled into the loan
- Flexible Underwriting Guidelines
- 640 Minimum Credit Score
- MassHousing Services all ADU Loans
- Lender manages construction disbursements and oversight

### ADU 0% Deferred

|                         |                                                                                                                                                                                                                                                                  |
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| Transaction Type        | <ul style="list-style-type: none"> <li>• Subordinate Mortgage</li> </ul>                                                                                                                                                                                         |
| Income Limits           | <ul style="list-style-type: none"> <li>• Up to 135% of AMI</li> <li>• <a href="#">Income Limits</a></li> </ul>                                                                                                                                                   |
| Interest Rate           | <ul style="list-style-type: none"> <li>• 0% Deferred</li> </ul>                                                                                                                                                                                                  |
| MH Match Loan Limits    | <ul style="list-style-type: none"> <li>• MH will match the ADU loan amount up to the values below: <ul style="list-style-type: none"> <li>○ Detached unit: Up to maximum of \$100,000</li> <li>○ Attached unit: Up to maximum of \$50,000</li> </ul> </li> </ul> |
| Loan Term               | <ul style="list-style-type: none"> <li>• 20 Year amortization (<i>due upon satisfaction of ADU loan</i>)</li> </ul>                                                                                                                                              |
| Occupancy / Eligibility | <ul style="list-style-type: none"> <li>• Owner Occupied (<i>Subject property must be the borrower's current primary residence</i>)</li> </ul>                                                                                                                    |
| Property Type           | <ul style="list-style-type: none"> <li>• 1 Unit</li> </ul>                                                                                                                                                                                                       |
| Max LTV/CLTV            | <ul style="list-style-type: none"> <li>• 95/95% (<i>based off full appraised value, "subject to" completion</i>)</li> </ul>                                                                                                                                      |
| Max DTI                 | <ul style="list-style-type: none"> <li>• 50%</li> </ul>                                                                                                                                                                                                          |
| Minimum Credit Score    | <ul style="list-style-type: none"> <li>• 640</li> </ul>                                                                                                                                                                                                          |
| Closing Costs and Fees  | <ul style="list-style-type: none"> <li>• Borrower(s) are responsible for all closing costs and fees, and may finance customary costs and fees not to exceed maximum CLTV</li> </ul>                                                                              |

### Product Notes

- Manual underwritten loans. No AUS required for eligibility.
- Construction completion/Occupancy permit to be issued within 180 days from the Note date.

- ADU rental income may be used up to 50% of fair market rent for underwriting.
- Lender must document proof of funds, if the project is using other sources in addition to the MassHousing ADU Loans.
- No Prepayment Penalties apply.
- All individuals who have an ownership interest must be on the loan and must sign the Note, Mortgage and Right of Recission.
- Any person(s) who does not have an ownership interest in the property cannot be on any closing documents or be a part of the loan transaction.

#### Links to State Requirements

- **By-right Construction:** ADUs under 900 square feet can be built by-right in single-family zoning districts as per the new law.
- **Regulatory Guidance:** The Metropolitan Area Planning Council (MAPC) provides guidance on regulating ADUs in accordance with the Zoning Act.
- **Model Zoning:** The Massachusetts government offers model zoning for ADUs, which outlines the necessary regulations.
- **Statewide Permitting:** ADUs are now permitted by-right statewide, thanks to the Affordable Homes Act signed into law in August 2024.
- **Municipal Regulations:** A comprehensive list of municipalities that allow ADUs and their specific conditions is available.

#### Summary of Key Regulations

- 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.

### Lender Construction Monitoring

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| ROLE OF THE LENDER      | <ul style="list-style-type: none"> <li>• Process, underwrite, disclose and close the loan in accordance with MassHousing Guidelines</li> <li>• Review and approve plans &amp; specifications, evaluating quantity, quality and cost of the construction</li> <li>• Review and approve permits, construction schedule, cost estimates, and disbursement schedule</li> <li>• Monitor completion of work per plans and specs and construction schedule</li> <li>• Monitor release of loan proceeds for completed work</li> <li>• Ensure that clear title to the property is maintained</li> <li>• Notify MassHousing of any Change Orders</li> </ul> |
| CONTINGENCY RESERVES    | <ul style="list-style-type: none"> <li>• Contingency reserve of 10% of the total cost.</li> <li>• The contingency reserve will be released only, if necessary, when cost over runs occur based on the original scope of work.</li> <li>• Once work is completed and occupancy permits are issued by the municipality, all remaining funds in the rehabilitation escrow account will be used to reduce the unpaid principal balance of the loan.</li> </ul>                                                                                                                                                                                        |
| OTHER SOURCES OF FUNDS  | <ul style="list-style-type: none"> <li>• Other sources should be disbursed prior to release of funds from the MH ADULP escrow.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| ELIGIBLE IMPROVEMENTS   | <ul style="list-style-type: none"> <li>• Construction of an attached or detached ADU.</li> <li>• Permanent general improvements may include additions, alterations, or repairs in connection with existing structures for constructing the ADU.</li> <li>• Improvements to bring an individual private sewage disposal system located on the lot into compliance with local, state, or federal environmental and sanitary standards.</li> </ul>                                                                                                                                                                                                   |
| INELIGIBLE IMPROVEMENTS | <ul style="list-style-type: none"> <li>• Outbuildings, including sheds, utility buildings, barns, silos, non-attached garages, etc.</li> <li>• Commercial buildings and mixed-use buildings, which can reasonably be expected to be used in a trade or business.</li> <li>• Appliances not permanently affixed, pieces of furniture, or other personal property. (Refrigerators are eligible).</li> <li>• Assessments for public improvements.</li> <li>• Any improvements started before the closing of the MH ADULP Loan.</li> </ul>                                                                                                            |
| SWEAT EQUITY            | <ul style="list-style-type: none"> <li>• Not permissible</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |

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| CONTRACTOR LICENSE AND INSURANCE REQUIREMENTS | <ul style="list-style-type: none"> <li>Contractors are required to be licensed with the Commonwealth of Massachusetts and be active and in good standing with the Contractors' License Board.</li> <li>Contractors must have the following insurance in place to the extent required by State law. <ul style="list-style-type: none"> <li>All Risk Insurance Policy equal to 100% of the full replacement cost of the improvements</li> <li>Public Liability &amp; Property Damage Insurance</li> <li>Workers Compensation (as required by state law) (if applicable)</li> <li>Automobile Liability Insurance</li> <li>Contractors must agree to comply with all federal and state regulations</li> </ul> </li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| REQUIRED CONTRACTOR DOCUMENTS-PLANS AND SPECS | <ul style="list-style-type: none"> <li>Plans and specifications describing all 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 job completion dates).</li> <li>The lender should use the plans and specifications to evaluate the quantity, quality, and cost of the ADU construction.</li> <li>Executed contract between the borrower and the contractor describing the specific work the contractor agrees to perform, schedule for payments, construction schedule of work, contractor's liability policy, the contractor's agreement to complete the work in accordance with all applicable building codes and to obtain all necessary approvals and permits.</li> <li>Licensed contractors must complete all construction work.</li> <li>Lender must review and determine that the contractor hired by the borrower has the experience to perform the scope of work.</li> </ul>                                                                                                                                                                                                                                                                                                                                                        |
| PERMITS                                       | <p>The applicable state and city/town permits must be obtained by the home owner/contractor prior to construction commencing.</p> <ul style="list-style-type: none"> <li>Final payment made upon proof of all municipal sign offs.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| ESCROW AGREEMENT                              | Escrow agreement between the borrower and lender to detail the construction (scope) schedule, the related payment amounts, and a payment schedule for work completion.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| REQUEST FOR EXTENSION                         | <ul style="list-style-type: none"> <li>If the construction cannot be completed within the specified timeframe of the Escrow Agreement, the Mortgage Lender must notify MassHousing at <a href="mailto:rehabmonitoring@masshousing.com">rehabmonitoring@masshousing.com</a> the reason for an extension and the projected completion time.</li> <li>The Mortgage Lender must also include the status of the construction, lender's recommendation for action, and any additional documentation which may be requested by MassHousing for determining the feasibility of completing the work.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| DRAWS/ESCROW MANAGEMENT                       | <ul style="list-style-type: none"> <li>An escrow account sufficient to finance the completion of the construction must be maintained by the lender in an interest-bearing account.</li> <li>The completion escrow shall be held in trust for the benefit of borrower and MassHousing until the work is complete.</li> <li>The completion escrow amount may provide for periodic draws against the escrow as portions of the work is complete.</li> <li>The lender is responsible for managing all disbursements from this account according to the terms of the Escrow Agreement.</li> <li>Disbursements should occur only after the scope of the work for which the disbursement is being requested has been inspected and approved by the lender.</li> <li>Required documentation for disbursements must include signed and dated contractor invoices.</li> <li>Disbursements from the Borrower's Escrow Account must be made directly to the Borrower, Supplier and/or Contractor. If the Borrower or contractor presents paid receipts for materials/supplier(s) for improvements listed on the contract for work may be paid directly to the supplier and/or Contractor.</li> <li>These expenditures must be reasonable, and the Mortgage Lender must monitor the delivery and installation of all purchased material.</li> </ul> |

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|                                                | <ul style="list-style-type: none"> <li>• If paid receipts are used to support a disbursement payable directly to the Borrower, the Mortgage lender must use caution to ensure that the same receipt is not repeatedly used to support more than one disbursement.</li> <li>• Based on the scope of work, the lender shall utilize a mechanics lien waiver and title run downs to ensure payment to the contractor and release of potential lien(s).</li> <li>• The lender must maintain records on all escrow disbursements.</li> </ul>                                                                                                                                                                                                                                                                                                                                                        |
| MONITORING                                     | <p>On a monthly basis, the Mortgage Lender will provide a status of all outstanding construction projects, which will include</p> <ul style="list-style-type: none"> <li>• Borrower's name</li> <li>• MassHousing Loan number</li> <li>• Original escrow balance</li> <li>• Current escrow balance</li> <li>• Percent disbursed</li> <li>• Percent of project completion</li> <li>• Estimated completion date</li> <li>• The status report must be sent to MassHousing at <a href="mailto:rehabmonitoring@masshousing.com">rehabmonitoring@masshousing.com</a>.</li> </ul>                                                                                                                                                                                                                                                                                                                     |
| WORK BEING COMPLETED OUTSIDE OF THE MH PROJECT | Lender to ensure all work is complete according to the plans, specifications, and contract with the issuance of an occupancy permit by the applicable city/town authority.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| FINAL COMPLETION                               | <p>The lender must obtain all necessary lien releases or take any other action that may be required to ensure that the title to the property is clear of all liens and encumbrances.</p> <ul style="list-style-type: none"> <li>• Any funds remaining in the Escrow Account 180 days after the Note Date must be applied to reduce the principal balance of the Loan unless the Agency provided a written extension prior to the end of said period. <ul style="list-style-type: none"> <li>• These funds will be sent, by check, to the Home Ownership, Lending Division. The check should be made payable to MassHousing for credit to the account of the Borrower.</li> <li>• The Mortgage Lender must notify the Borrower in writing of said action.</li> </ul> </li> </ul>                                                                                                                |
| FINAL COMPLETION DOCUMENTS                     | <p>Required documents for the Monitoring Process must be uploaded to loan record in <a href="https://masshousing.com">masshousing</a> upon completion of the project.</p> <ul style="list-style-type: none"> <li>• Interest Bearing Escrow Agreement along with the final executed contract, construction schedule and payment schedule.</li> <li>• Mechanic's lien release and title rundown</li> <li>• Copies of disbursement requisitions</li> <li>• Copies of paid receipts for items paid directly to the borrower (if applicable)</li> <li>• Change order requests (if applicable)</li> <li>• Verify issuance and sign off on Permits by city/town</li> <li>• Appraiser's final inspection and recertification of value, and occupancy permit</li> <li>• Audit of closing and escrow accounts with any remaining funds sent to MassHousing to be applied to mortgage balance.</li> </ul> |