

Thinking of Adding an Accessory Dwelling Unit (ADU)? Here's Some Financing Advice

While Denver's recent passage of House Bill 24-1152 has cleared the path for many homeowners to create "accessory dwelling units" (ADUs) on their properties, the next obvious questions are, "what is the process and how would I finance such a project?" I asked **Jaxzann Riggs**, owner of **The Mortgage Network**, to provide some answers.

Both Fannie Mae (FNMA) and Freddie Mac (FHLMC) offer renovation loans that can be used to construct ADUs. Each loan has its own nuances, but in general, renovation loans allow a borrower to purchase a property or refinance an existing loan and include funds in the loan amount to cover the costs of renovation or construction of an ADU.

ADUs must contain at least a kitchen, bedroom, and bathroom. They can be detached, attached, or converted from existing space. If you are building a separate dwelling, you will need to ensure that your lot meets setback, height restrictions, parking, and utility regulations. You may want to hire an architect, designer, or contractor to help you create your initial budget and plans.

Next, you will select your lender and discuss your ability to qualify for the loan amount needed to finish the project. You will complete a loan application and will be asked to include income,

credit and asset information in that application.

Your application, supporting income and asset documents along with the plans, specifications (specs) and cost estimates created by the architect and/or contractor will be reviewed by the lender. The plans and specs must be prepared by a registered, licensed, or certified general contractor, renovation consultant or architect. The initial project overview, contract and contractor's bids must describe all work to be done and provide an indication of when various jobs or stages of completion will be scheduled (including the start and completion dates). Cost estimates must include labor and materials sufficient for the work to be completed by the contractor.

The contractor is required to provide evidence of all required insurance coverage such as public liability, worker's compensation, and automobile liability. The written agreement between the homeowner and the contractor must provide appropriate remedies for resolving disputes, including an agreement to indemnify the homeowner against all property losses or damage that might be caused by its employees or subcontractors.

The lender's appraiser then develops an "as completed" opinion of value based upon the plans

and specs. The total cost of the financed renovation or addition may not exceed 75% of the "as completed" appraised value.

Once the application has been approved, and permits have been received, the new loan closes and an escrow account is established for the renovation funds. The funds are managed by the lender's renovation team. A team member will complete periodic inspections of the property to confirm that work is being completed as planned. The team is responsible for advancing funds (referred to as draws) for materials and labor during the renovation or construction. There can be a maximum of five draws during the process and draw checks are issued jointly in the name of the homeowner and contractor.

If changes are made to the original plans and specs, the appraiser must be notified of the changes and provided with the change documentation. The appraiser must provide a new appraisal to reflect the changes and account for the impact on the "as completed" value. Any changes to the plans and specs must also be approved by the renovation team. Having an *experienced contractor*

and lender working in concert to guide you thru the process is essential.

If you have an interest in learning more, you may reach **Jaxzann** at **(303) 990-2992**.

Let's Talk
Home Financing



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