



## City of East Palo Alto's CalHome ADU/JADU Loan Basic Outline of Program

**Section 1. CalHome ADU/JADU Loan Description:** The City of East Palo Alto and East Palo Alto Community Alliance and Neighborhood Development Organization (EPACANDO) received a \$2 Million CalHome award from the Department of Housing and Community Development (HCD). CalHome enables the City to provide loans in the amount of \$100,000 for ADU/JADU construction, reconstruction, repair, or rehabilitation of existing or non-permitted accessory dwelling units to households at or below 80% of the Area Median Income (AMI). These loans are low-interest, deferred-payment loans aimed to assist East Palo Alto households by providing an important source of gap funding for their ADU/JADU projects. In exchange, households agree to rent the ADU/JADU to an income-qualified household for the life of the CalHome ADU/JADU Loan.

**Section 2. CANDO ADU Program Description:** EPACANDO's CANDO ADU Program, designed to help homeowners plan, build, and rent an ADU/JADU is responsible for the financial prequalification of each applicant, working directly with the loan underwriter, Meriwest Mortgage, who holds funds similar to a construction loan, and disperses payments as each verified project milestone is met. The Program can also act as a project manager for each CalHome ADU/JADU project and assists homeowners through the five states of ADU development. Starting with (1) an assessment of what is possible on their property and well-suited to their situation, (2) an estimate of how much their ADU/JADU would cost, and (3) an assessment of how to pay for it and their financial readiness. For homeowners who move ahead after the first three states, CANDO ADU provides active, hands-on support (4) to obtain the necessary plans and permits, and (5) during the construction and lease-up states.

**Section 3. Eligibility Requirements:** The following subsections are eligibility requirements expected to be met by the Applicant(s) for the City of East Palo Alto's CalHome ADU/JADU Loan:

*A. Owner-Occupancy*

Applicant(s) must reside in the main dwelling, and demonstrate residency and ownership. See Section VI under CalHome ADU/JADU Loan Application for documentation requirements.



**B. Evidence of credit or cash commitments**

Applicant(s) must show evidence of credit commitments and cash adequate to cover total project costs when combined with the City of East Palo Alto’s CalHome ADU/JADU Loan. See [Section VI](#) under CalHome ADU/JADU Loan Application for documentation requirements.

**C. Income and Asset Documentation**

Applicants(s), along with their household, must earn at or below 80 percent of the Area Median Income (AMI). See [Section VI](#) under CalHome ADU/JADU Loan Application for documentation requirements. See, also, the chart below for reference or [review the latest official state limits for San Mateo County](#):

Household Size	1	2	3	4	5
<b>80% AMI Income Limit</b>	\$104,400	\$119,300	\$134,200	\$149,100	\$161,050
<a href="#">Source: Official State Income Limits for 2023 (Effective June 6, 2023)</a>					

**D. Type of Housing Units Eligible**

- a. A single-family home, attached or detached, whose lot is within a residential or mixed-use zoning district and includes one proposed or legally created dwelling.
- b. A single-family home, attached or detached that currently has an active Code Enforcement case for an unpermitted ADU/JADU with the City of East Palo Alto. Applicant(s) is to provide a copy of the Notice of Violation.

**E. Type of Accessory Dwelling Units (ADUs) Eligible**

- a. A detached accessory dwelling unit is a separate stand-alone dwelling structure, usually in the backyard of the main house, and has a full kitchen and full or partial bath.
- b. An attached accessory dwelling unit is a separate dwelling structure attached to your home that shares at least one wall with the main house and has a full kitchen and full or partial bath.
- c. A junior accessory dwelling unit (JADU) is a 500 square feet or less, converted living space within the walls of your existing home. It may have at the minimum an efficient kitchen and its own or shared bathroom with a private entrance. A garage conversion can also be considered a JADU.



#### *F. Project Budget*

Applicant(s) need to provide a project budget that contains the following information, but is not limited to

- a. Total development costs including soft (pre-development) and hard costs (construction)
- b. A project budget with a contingency of at least 10 percent
- c. Project schedule
- d. If applicable, permit status. See Item G. Project cut-off dates.

The project budget is needed to determine what costs are eligible under CalHome ADU/JADU guidelines.

#### *G. Project cut-off dates*

Applicant(s) are encouraged to work with the CANDO ADU Program through the entirety of the planning and construction process. Non-CANDO ADU Program participants are eligible for the CalHome ADU/JADU Loan only if they have not received a final inspection or project completion. If eligibility is determined, the applicant(s) are required to comply with all program requirements.



**Section 4. Pre-Application Process:** The following subsections are pre-application requirements, set by the CANDO ADU Program, expected to be met by the Applicant(s):

*A. Intake Form*

Applicant(s) will provide the following minimum information to CANDO ADU staff through a [program application](#): A name, phone number, email address, and a home address to conduct an assessment of the property in question for an ADU/JADU. Staff will contact the Applicant(s) and make an appointment to present and discuss the assessment. In the assessment, Applicant(s) will know what type, size, and placement of an ADU is feasible to build on the property, along with cost estimates and financing options.

*B. Basic Financial Readiness*

After the assessment is delivered and discussed, and the Applicant wishes to move forward, Staff will help the Applicant(s) assess how to use their financial resources to pay for the unit through a personalized financial assessment. This includes but is not limited to

- a. Determining creditworthiness through credit report analysis
- b. Determining financing options and loan affordability

In some cases, Applicant(s) will have secured some funding before enrolling in the program. If this is the case, Applicant(s) are required to provide proof of funds to Staff.

*C. Securing financing*

After receiving a personalized financial assessment, Applicant(s) receive the next steps from Staff to apply for financing. Once financing is secured, Applicant(s) will provide proof of funds or a pre-approved letter to Staff.

*D. Designer selection*

Staff and Applicant(s) will work together to select a designer, drafter, or architect to develop a scope of work for the design of the selected unit type. Once selected, Applicant(s) will sign a design agreement with the designer, drafter, or architect to create a plan set that will be paid by the Applicant(s), following the agreed-upon payment schedule. The final plan set will be submitted to the City of East Palo Alto's Planning and Building Divisions for approval.



#### *E. Plans and permit approval*

Staff and Applicant(s) will work together to select a builder or contractor to develop a scope of work for the construction of the approved building plans. **The contractor must be actively licensed by and bonded with the California State Licensing Board (CSLB).** The contractor must have insurance following City-required limits, listing the Property address and naming the City and the Borrower as additional insured. Once selected, Applicant(s) will sign a construction agreement with the builder or contractor, and follow the agreed-upon payment schedule.

**Section 5. Eligibility Review Process:** The following subsection briefly summarizes the process which Applicant(s) go through with the assistance of the CANDO ADU Program to determine eligibility for the City of East Palo Alto's CalHome ADU/JADU Loan:

#### *A. CalHome ADU/JADU Loan Eligibility*

Once the Applicant(s) knows the total estimated project cost for the project, CANDO ADU will help the Applicant(s) apply for the CalHome ADU/JADU Loan by helping with, but not limited to

- a. Providing documentation of residency and ownership of the main dwelling
- b. Providing proof of financial capacity to complete the project through documentation of secured funds
- c. Demonstrating household size and income is 80 percent less than the area median income (AMI)
- d. Providing project costs and budget
- e. Determining maximum eligibility based on project type



**Section 6. Loan Application Review Process:** The following subsection briefly summarizes the process that Applicant(s) go through with the assistance of the CANDO ADU Program to apply for the City of East Palo Alto's CalHome ADU/JADU Loan:

*A. CalHome ADU/JADU Loan Submission*

After CalHome ADU/JADU Loan eligibility is determined the Applicant(s) and CANDO ADU will work together and submit a loan application to Meriwest Mortgage for final approval.

The following documents must be submitted to be included in the Loan Application:

- a. Drivers License or identification;
- b. Last 2 years of W-2s for all borrowers;
- c. Last 2 pay stubs for all borrowers;
- d. 2 most current bank statements;
- e. Authorization for Meriwest to pull credit report
- f. Tax returns from past 2 years;
- g. Copy of current mortgage payment statement or coupon and copy of homeowners insurance page that shows the amount of insurance coverage and premium.

In applicable cases in which the Applicant(s) secured first position financing through Meriwest Mortgage, an option but not required, most if not all documents would be on file with the lender.

**Section 7. Loan Application Approval Process:** The following subsection briefly summarizes the process which Applicant(s), now Borrower(s) go through when approved for the City of East Palo Alto's CalHome ADU/JADU Loan:

*A. CalHome ADU/JADU Loan Approval*

Once the Applicant(s) is approved by Meriwest Mortgage for the City of East Palo Alto's CalHome ADU/JADU Loan, closing conditions are met, and loan documents are recorded, the funds will be deposited into escrow. Construction can not start until all loan documents are finalized, and the City provides a Notice to Proceed.

In the case of a denial, the Applicant(s) and Staff will work together to address the denial.



## *B. CalHome ADU/JADU Loan Documents*

The following documents will be drawn and signed before loan disbursement into escrow:

- a. CalHome ADU/JADU Loan Agreement
- b. CalHome ADU/JADU Secured Promissory Note
- c. CalHome ADU/JADU Affordable Housing Regulatory Agreement and Declaration of Restrictive Covenants
- d. CalHome ADU/JADU Deed of Trust and Security Agreement
- e. When applicable, other Meriwest Mortgage-related documents

**Section 8. Construction:** The following subsections briefly summarize the process in which Borrower(s) go through during the construction of an ADU/JADU built with funding from the City of East Palo Alto's CalHome ADU/JADU Loan:

### *A. Notice to Proceed*

No construction on the ADU/JADU may commence until the City of East Palo Alto has issued the Notice to Proceed.

### *B. Pre-Construction Conference*

When applicable, prior to the start of construction of the ADU/JADU, a pre-construction conference with the Borrower to review Program guidelines.

### *C. Construction of the ADU/JADU*

The ADU/JADU shall be constructed pursuant to the terms of the CalHome ADU/JADU Loan Agreement and in strict accordance with any drawings, specifications, and/or other related documents submitted to and approved by the City and in compliance with all applicable laws, regulations, and rules of all governmental agencies having jurisdiction. This includes but is not limited to, Chapter 18.96 of the Municipal Code of the City of East Palo Alto.

### *D. Work Inspections*

The City shall inspect any work performed under the CalHome ADU/JADU Loan program to ensure the work is being and has been performed in accordance with the applicable federal, state, and/or local requirements, any applicable construction



contracts, and the CalHome Standard Agreement with the Department of Housing and Community Development which includes signage of CalHome financing.

**E. Construction Draws**

Funds will only be disbursed by Meriwest Mortgage, which holds funds similar to a construction fund when the following milestones have been met and verified or approved by CANDO ADU and the City of East Palo Alto through work inspections and project schedules:

<b>Components</b>	<b>Estimated Amount<sup>1</sup></b>	<b>Uses</b>	<b>Release Schedule</b>
<b>Plans and Permits</b>	\$25,000	Reimbursement of plan design costs and city application fees. Once reimbursed, funds can be used for other project-related costs, if desired.	Awarded funds are released when a Building Permit is issued.
<b>Necessary Site Upgrades</b>	\$25,000	Reimbursement of infrastructure cost upgrades needed to complete the project or to be used to pay off a system upgrade invoice.	Awarded funds are released in the following two draws: 1. Foundation passes inspection or equivalent if rehab 2. System upgrade is signed off or Plumbing inspection passed.
<b>Construction Assistance</b>	\$40,000	Reimbursement of construction costs, or to be used to pay off construction schedule invoices.	Awarded funds are released when Drywall inspection is signed off, or equivalent if rehab
<b>10% Lien</b>	\$10,000	10% is held for Lien purposes, after release, to be used for construction schedule invoices.	Awarded funds are released when a project is given a final inspection or project completion

<sup>1</sup>If the loan is covering full construction costs, the program administrator can determine the payment installments



**Section 9. CalHome ADU/JADU Program Rent Requirements:** The following subsection briefly summarizes the affordability and rent restrictions Borrower(s) must adhere to when renting the ADU/JADU during the life of the CalHome ADU/JADU Loan.

*A. Affordability Restrictions*

Borrower(s) shall rent the ADU/JADU constructed with a CalHome ADU/JADU Loan at an affordable rent to an income-qualified household.

Rent is restricted at 60 percent AMI per the State Department of Housing and Community Development (HCD). See the chart below for reference or [review the latest official maximum rent limits for San Mateo County](#):

Number of Bedrooms	0 (Studio)	1	2	3
<b>60% AMI Maximum Rent Limit</b>	\$1,951	\$2,091	\$2,509	\$2,898
<a href="#">Source: 2023 MTSP Regular Income, Rent and Loan Limits</a>				

The CANDO ADU Program will review the proposed tenant’s income and proposed rent prior to the signing of the lease and prior to tenant moving in. Borrower(s) must comply with all applicable city, state, and federal laws pertaining to renting residential properties, including without limitation, all applicable fair housing and nondiscrimination laws, landlord-tenant laws, and local good cause for eviction and tenant protection laws.

**Section 10. Annual Monitoring:** The following subsection briefly summarizes the annual monitoring of Borrower(s) during the life of the City of East Palo Alto’s CalHome ADU/JADU Loan:

*A. Annual Certification(s)*

Applicant(s) are required to recertify annually, the following items:

- a. Owner-occupancy of the Main Dwelling or ADU/JADU by providing an original copy of a utility bill, and a state-issued driver's license/ID card.
- b. Maintain property insurance, including fire and flood insurance if applicable, by providing an original copy of current insurance documents naming City as loss payee
- c. Submit verification that property tax payments are current by providing proof of payment.



**Section 12. Loan Terms:**

<b>Maturity</b>	<p>Upon a change in occupancy. A change in occupancy includes but is not limited to, the following:</p> <ul style="list-style-type: none"> <li>a. The sale of the main dwelling.</li> <li>b. Conversion of any units on the property from owner-occupied to rental.</li> <li>c. Conversion of the property to fully non-residential use.</li> <li>d. Transfer of the property through inheritance</li> </ul>
<b>Collateral</b>	Second Deed of Trust (Subordinate to Senior mortgage loan); will be in Second lien position
<b>Interest Rate</b>	3%
<b>Prepayment Penalty</b>	None; Borrower may repay the loan at any time, without penalty.
<b>Fees</b>	\$0
<b>Combined Loan to Value (CLTV)</b>	Verified through an appraisal, the Loan-to-Value Ratio, when combined with all other indebtedness secured by the property, may not exceed 100% of the pre-improvement value or 80% of the post-improvement value of the property, whichever is smaller.
<b>Eligible Costs</b>	<p>A CalHome ADU/JADU Loan may be used for the following activities:</p> <ul style="list-style-type: none"> <li>a. Cost of construction, reconstruction, repair, conversion, or rehabilitation;</li> <li>b. Cost of structural modifications to the existing home necessary to accommodate an ADU or JADU</li> <li>c. Cost of building permits and other related public agency fees, including all fees necessary to build and occupy an ADU or a JADU;</li> <li>d. Cost of an appraisal, architectural, engineering, and other consultant services that are directly related to planning or construction;</li> <li>e. Non-recurring Loan closing costs.</li> </ul>
<b>Credit Score</b>	Score of 680
<b>Annual Review(s)</b>	<p><u>Owner-Occupancy:</u> The Borrower is required to live on the property in the Main Dwelling or the ADU/JADU unit as their primary residence, and are required to recertify annually that they are the residents of the Main Dwelling or ADU/JADU and are the owners of both. Short-term rental of the units is prohibited.</p> <p><u>Property Insurance(s):</u> The Borrower must maintain property insurance, including fire and flood insurance if applicable, during the life of the CalHome ADU/JADU Loan. The City must be named as loss payee in the first position or additional insured if the loan is a junior lien.</p> <p><u>Property Taxes and Assessments:</u> The Borrower is responsible for making property tax payments on a timely basis during the term of the loan.</p>



## CalHome ADU/JADU Loan Application

### I. Household Information

Street Address	City	State	ZIP
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### II. Household Size Composition

HH Mbr #	First Name, Middle Initial, Last Name	DOB	Check One
1		/ /	<input type="checkbox"/> Head/Primary Borrower <input type="checkbox"/> Dependent, under 18 years of age <input type="checkbox"/> Dependent, over 18 years of age and full-time student <input type="checkbox"/> Spouse/Co-Head/Co-Borrower <input type="checkbox"/> Other Adult
2		/ /	<input type="checkbox"/> Head/Primary Borrower <input type="checkbox"/> Dependent, under 18 years of age <input type="checkbox"/> Dependent, over 18 years of age and full-time student <input type="checkbox"/> Spouse/Co-Head/Co-Borrower <input type="checkbox"/> Other Adult
3		/ /	<input type="checkbox"/> Head/Primary Borrower <input type="checkbox"/> Dependent, under 18 years of age <input type="checkbox"/> Dependent, over 18 years of age and full-time student <input type="checkbox"/> Spouse/Co-Head/Co-Borrower <input type="checkbox"/> Other Adult
4		/ /	<input type="checkbox"/> Head/Primary Borrower <input type="checkbox"/> Dependent, under 18 years of age <input type="checkbox"/> Dependent, over 18 years of age and full-time student <input type="checkbox"/> Spouse/Co-Head/Co-Borrower <input type="checkbox"/> Other Adult
5		/ /	<input type="checkbox"/> Head/Primary Borrower <input type="checkbox"/> Dependent, under 18 years of age <input type="checkbox"/> Dependent, over 18 years of age and full-time student <input type="checkbox"/> Spouse/Co-Head/Co-Borrower <input type="checkbox"/> Other Adult



**III. Household's Income Composition**

HH Mbr #	Employer Name	Rate of Pay or Annual Salary	Hours Worked	Pay Frequency
1				<input type="checkbox"/> Hourly <input type="checkbox"/> Semi-Monthly <input type="checkbox"/> Weekly <input type="checkbox"/> Monthly <input type="checkbox"/> Bi-Weekly <input type="checkbox"/> Self-Employed
2				<input type="checkbox"/> Hourly <input type="checkbox"/> Semi-Monthly <input type="checkbox"/> Weekly <input type="checkbox"/> Monthly <input type="checkbox"/> Bi-Weekly <input type="checkbox"/> Self-Employed
3				<input type="checkbox"/> Hourly <input type="checkbox"/> Semi-Monthly <input type="checkbox"/> Weekly <input type="checkbox"/> Monthly <input type="checkbox"/> Bi-Weekly <input type="checkbox"/> Self-Employed
4				<input type="checkbox"/> Hourly <input type="checkbox"/> Semi-Monthly <input type="checkbox"/> Weekly <input type="checkbox"/> Monthly <input type="checkbox"/> Bi-Weekly <input type="checkbox"/> Self-Employed
5				<input type="checkbox"/> Hourly <input type="checkbox"/> Semi-Monthly <input type="checkbox"/> Weekly <input type="checkbox"/> Monthly <input type="checkbox"/> Bi-Weekly <input type="checkbox"/> Self-Employed

**IV. Household's Assets Composition** (E.g.: Checking, Savings, Money Market, Stocks, Stock Options, Bonds, Mutual Funds, Certificate of Deposits, 401K, CalSTRS, CalPERS, 403b, Pension, IRA, Roth IRA, TSP, Profit Sharing Plan, etc.)

HH Mbr #	Bank Institution and/or Type of Asset	Ending Balance or Value of Asset	Statement Period	Interest Rate
1				
2				
3				
4				
5				



**V. How would you fund this project in combination with the CalHome ADU/JADU Loan?  
Mark all that apply.**

- Cash, savings, or monetary gifts     
  Cash-Out Refinance     
  Home Equity Line of Credit (HELOC)     
  Construction Loan
- Other: \_\_\_\_\_

*I/we certify that this information is complete and accurate.*

	Print Name	Signature	Date
Household Member #1			
Household Member #2			
Household Member #3			
Household Member #4			
Household Member #5			



### CalHome ADU/JADU Loan Eligibility Checklist

Item	Description	Documents Requested	Required From	Documents Provided & Notes
<b>CalHome ADU/JADU Loan Eligibility Requirements</b>				
<b>Owner Occupancy</b>	Applicant(s) must reside in the main dwelling, and demonstrate residency and ownership.	<ul style="list-style-type: none"> <li>a. Current homeowners insurance policy</li> <li>b. Utility bill current within the last 60 days</li> </ul>	Borrower(s)	
<b>1st Position Financing</b>	Applicant(s) must show evidence of credit commitments and cash adequate to cover total project costs when combined with the City of East Palo Alto's CalHome ADU/JADU Loan	<ul style="list-style-type: none"> <li>a. Proof of funds or bank pre-approval(s)</li> </ul>	Borrower(s)	
<b>Income &amp; Assets Documentation</b>	Applicants(s), along with their household, must earn at or below 80 percent of the Area Median Income (AMI).	<ul style="list-style-type: none"> <li>a. 2 most recent months of pay stubs</li> <li>b. 3 most recent months of bank statements</li> <li>c. 2 most recent years of tax returns, if self-employed</li> <li>d. If receiving benefits, please provide Award Letters</li> </ul>	Borrower(s) and All Household Members	
<b>Project Budget</b>	Applicant(s) need to provide a project budget that includes total development cost	<ul style="list-style-type: none"> <li>a. Design contract/proposal</li> <li>b. Construction contract/proposal</li> </ul>	Borrower(s)	
<b>Underwriting Eligibility</b>				
<b>Credit Score</b>	Credit score of 680 or above	<ul style="list-style-type: none"> <li>a. Authorization to pull credit</li> </ul>	Borrower(s)	
<b>Debt-to-income Ratio</b>	Less than 45% of gross income spent on housing and debt combined	<ul style="list-style-type: none"> <li>a. 2 most recent months of pay stubs</li> <li>b. 3 most recent months of bank statements</li> </ul>	Borrower(s)	
<b>Loan-to-Value Ratio</b>	Dividing the amount owed on loan(s) by the property's appraised value. May not exceed 100% of the pre-improvement value or 80% of the post-improvement value of the property, whichever is smaller.	<ul style="list-style-type: none"> <li>a. An appraisal from 1st Position Lender or one to be ordered from Meriwest Mortgage</li> </ul>	N/A	



## **VI. CalHome ADU/JADU Loan Submission Checklist**

- Drivers License or identification;
- Last 2 years of W-2s for all borrowers;
- Last 2 pay stubs for all borrowers;
- 2 most current bank statements;
- Authorization for Meriwest to pull credit report
- Tax returns from past 2 years;
- Copy of current mortgage payment statement or coupon and copy of homeowners insurance page that shows the amount of insurance coverage and premium.



## VII. **CANDO ADU Services in Detail**

### **Throughout the process:**

CANDO ADU staff can serve as the dedicated main point of contact among all parties involved -- Homeowner(s), designer(s), contractor(s), subcontractor(s), City staff, and EPACANDO staff.

### **Before construction:**

- Digital and physical assessment of what is physically possible to build under City regulations, given the constraints of the Property
- Help homeowner(s) understand the cost of what they can build
- Help homeowner(s) know ways they can pay for the ADU
- Help homeowner(s) apply for financing with the lender they choose, including using a document checklist to help homeowner(s) know they are ready to apply and meet all requirements (debt ratios, income, and credit requirements) so they will be successful
- Help homeowner(s) assemble a project team
- Help homeowner(s) understand and sign design contract(s) to obtain plans and permits
- Help homeowner(s) understand city fees and the plan review process
- Once a building permit is approved, the homeowner will be oriented on what to expect during construction, and how to prepare for construction

### **During construction:**

- Help homeowner(s) troubleshoot if there are issues or concerns

### **After construction:**

- Help homeowner(s) understand lease agreements, landlord-tenant rights and responsibilities, and maintenance of the unit
- Referrals to partner organizations for property management