



ACCESSORY DWELLING UNITS

More Space, More Income, More Choice

Having an accessory dwelling unit (ADU) on an existing property has become a popular way for homeowners to offer independent living space to family members or to gain residual income by renting out the unit. This popularity has increased demand for home financing that offers special consideration for an ADU. Freddie Mac's ADU policies provide multiple options for adding an ADU to a home or financing a purchase with the intention to rent or build an ADU, including allowing the borrower to use rental income to qualify. Our policies allow you to offer ADU flexibility on any Freddie Mac mortgage, giving your customers more choice in the purchase or renovation-financing process.

Accessory Dwelling Units (ADUs)



Sometimes called:

- In-law Suites
- Granny Flats
- Backyard Cottages
- Secondary Units
- Carriage Units
- Laneway Houses
- Alley Flats
- Casitas

What is an ADU?

An ADU is an additional finished area that:

- Includes a kitchen
- Includes a bathroom
- Includes a separate entrance
- Is independent of the primary dwelling unit
- Is smaller in size than the primary dwelling unit (i.e., the ADU's finished area is less than the primary dwelling unit's finished area)
- Contributes less to the value of the property than the primary dwelling unit

Types of ADUs



An ADU can be part of the primary home, such as:

- A converted basement space or an addition
- An above-garage unit

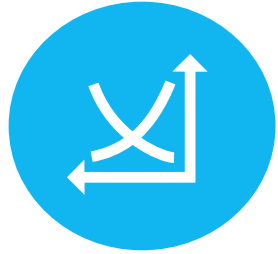
An ADU can be a detached structure(s) built on the main home's lot.

- Detached garage conversion
- Site-built structure
- Manufactured Home ADU



Our **CHOICERenovation** offering provides a “no cash-out” refinance mortgage option to pay off short-term financing from ADU renovations, including the addition or renovation of the ADU, completed by the note date.

Why the Market is Right for ADUs



- The continuing **housing supply shortage** requires **creative solutions** for providing individuals and families a place to call home.



- Homeowners have the option to apply **rent earned from an ADU** toward mortgage payments or home upkeep to help **sustain homeownership** in a challenging economy.



- ADUs can provide **independent housing** within a property's **existing footprint**, often requiring minimal construction and no additional land.



- An ADU can allow a homeowner to offer independent living space to **parents, adult children or other family members** for less than if they supported a separate living situation.

Qualify Borrowers using ADU Rental Income



Net Rental Income Calculations

ADU rental income may be considered up to 30% of the total stable monthly income used to qualify the borrower.



Required Income Documentation

Purchase:

- Lease, if available
- Rent comps

Refinance:

- Lease
- ADU rental analysis or federal tax returns, as determined by the date the ADU rental was placed in service.



Appraisal Requirements

The appraiser must:

- Give a description of the ADU
- Provide at least one ADU sales comp *and* one rent comp within the appraisal report to support the subject property's market rent.
- The ADU must comply with zoning and land use requirements (i.e., legal, legal non-conforming, or no zoning).



Landlord Education

At least one qualifying borrower must participate in landlord education for purchase transactions unless the borrower has:

- A minimum of one-year investment property management experience,
or
- ADU rental management experience

Considerations for Freddie Mac Financing



- A 1-, 2-, or 3-unit dwelling with an ADU must be legal, legal non-conforming, or located in an area without zoning
- A property may only have 1 ADU
- A manufactured home ADU must be titled as real property

Comparable Sales

- At least one comparable sale with an ADU, when available, to demonstrate the property's conformity and marketability to its market area.
- If a comparable sale with an ADU is not available, the appraiser can use a comparable sale in the subject neighborhood without an ADU as long as the appraiser can justify and support such use in the appraisal report.



Resources:

- [Originating Accessory Dwelling Units with Freddie Mac](#)
- [ADU short video](#)
- [ADU tutorial](#)
- [ADU Fact Sheet](#)

Questions?

Contact our Freddie Mac Customer Support Center at 800-FREDDIE,
or send an email to web_inquiries@freddiemac.com