REBECCA COHEN: Greetings, everyone. Thank you for joining us today. As you heard this session is being recorded.

I'm Rebecca Cohen. I'm the Senior Policy Analyst for the Duty to Serve Program at FHFA, and thank you for joining us. This listening session focuses on Accessory Dwelling Units, or ADUs, which are private living areas located within, attached, or on the same lot as a single-family home. It can be rented out to a tenant, used to provide a separate living space for a family member or friend, or even occupied by the homeowner, who can then rent out the primary dwelling.

These flexible spaces can take a variety of forms to address different needs, and as recent research from Freddie Mac tells us, the numbers have been growing. So we're here today to talk about the potential of ADUs to help address housing supply and affordability challenges, and, specifically, opportunities and barriers for FHFA, Fannie Mae, and Freddie Mac to consider.

Special thanks to everyone who is signed up to speak today. We actually extended the duration of this listening session because we got such a great response from folks interested in providing comments, and we're very eager to hear from you and get the benefit of your thoughts.

Before we do, it's my pleasure to introduce FHFA's

BAY AREA COURT REPORTING, INC.
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Acting Director Sandra Thompson, who will provide opening remarks. Since her appointment only three months ago, Acting Director Thompson has announced a slate of initiatives that will increase the supply of multi-family, single-family, and manufactured homes.

So thank you, Director Thompson, for joining us. The floor is yours.

SANDRA THOMPSON: Great. Thank you so much, Rebecca. And let me thank our participants for joining today's virtual listening session.

All across the United States, people are struggling with the housing crisis. Each market and community faces its own challenges, but a common theme can be found, and that is that there is a widespread shortage of affordable housing. FHFA is committed to helping to relieve these housing shortages by financing the existing affordable housing stock, enabling homes in disrepair to be rehabilitated, and supporting the growth of our nation's housing supply.

Accessory dwelling units are very traditional housing products that have gone by many names. One, a carriage house, mother-in-law suites, granny flats, and too many other titles to list. They have received renewed interest and policy attention recently as states such as Oregon and California have changed their ADU regulations with promising
results, and other states are considering following their lead.

Here at FHFA we want to understand what more Fannie and Freddie can do to support the growth of accessory dwelling units as a source of new housing supply. The Enterprises have a responsibility to identify the obstacles communities face in accessing financing for affordable housing, as well as a duty to develop strategies for overcoming them in a safe and sound manner.

Fannie Mae recently issued a new variance with several ADU-specific flexibilities, including utilizing rental income as qualifying income on a broader basis, allowing limited cash out refis for ADU construction, and supporting manufactured housing products.

Last summer, Freddie Mac released an innovative new study of growth in the national ADU housing stock, and as the lines between ADUs and two-unit properties can be thin at times, it is worth noting that Freddie just announced new mortgage eligibility standards for two- to four-unit properties that will add to the availability of rental units in these properties. ADUs, like two- to four-unit properties, can be an important source of additional income and general wealth building, especially for Black and Brown communities.

FHFA's mission through our regulated entities is to
responsibly foster a sustainable housing finance system that supports equitable access to affordable, decent, and safe home ownership and rental housing. The information and perspectives you share with us today will help us carry out this very important mission.

Thank you, again, for joining today's listening session, and I'll now turn the program back over to Rebecca.

REBECCA COHEN: Thank you so much, Director Thompson.

So we will now have brief introductory comments from the Enterprises. So first up, I'm pleased to introduce Mike Dawson, Freddie Mac Vice President for Affordable Lending Strategies and Initiatives, Single-Family Division.

Take it away, Mike.

MIKE DAWSON: Thank you, Rebecca, and thank you Director Thompson. Thank you to the whole team at FHFA for arranging this listening session, for bringing together the industry participants to share ideas and discuss real housing solutions. It is what is needed to drive change in today's challenging housing markets.

As Rebecca mentioned, I'm Mike Dawson. I'm a vice president in our Single-Family Client and Community Engagement Group, focused on our housing goals and certainly our duty to serve efforts, in addition to supporting our broader mission of home ownership.

So Fannie and Freddie Mac have been active purchasers
of mortgages supporting home ownership, and mortgages with accessory dwelling units in particular, including those mortgages that may be supported by manufactured housing units as an ADU. We have a wealth of information on our website around our purchase offerings, in particular around ADUs, the requirements associated with those types of mortgages. They're available on our single-family website; it's sf.freddiemac.com.

As you heard earlier, we also provide research and insights related to a variety of different housing related topics. One of the papers I'd recommend from our Economic and Housing Research Group, that was titled Granny Flats, Garage Apartments, In-Law Suites: Identifying Accessory Dwelling Units from Real Estate Listing Descriptions Using Text Mining. It's a long title, but it's a very good read. This was published back in July of 2020. It gives specifics around the growth of ADUs, and there're pretty cool maps in there associated with where, geographically, many of these ADUs are being established and, certainly, financed.

So enjoy the discussion today, and if you have any specific questions related to Freddie Mac's offerings, please, reach out to me or many colleagues here at Freddie Mac.

Thank you, and I will enjoy the discussion.

REBECCA COHEN: Thanks, Mike.
And now we'll hear from Mike Hernandez, Vice President of Engagement and Impact at Fannie Mae.

MIKE HERNANDEZ: Thanks, Rebecca.

First, let me also thank Director Thompson and the entire FHFA team for facilitating this very important session today.

Creating affordable housing stock is one of our nation's biggest housing challenges, and ADUs are key to that affordable housing supply. Since 2012, Fannie Mae has purchased more than 150,000 loans secured by homes with ADUs, including over 41,000 just in 2020, and we expect this activity to increase as communities become more and more friendly to ADUs. Our investment into ADUs are just one of the many initiatives that is core to Fannie Mae's mission, and our journey to be a world-class ESG company.

ADUs contribute significantly to housing affordability, sustainability, and accessibility by increasing rental housing opportunities and offering more affordable housing to the community where it might not have existed before. By generating additional income that can be put toward keeping borrowers in their homes, and enjoying the community benefits of prolonged home ownership. And, of course, by increasing the rental stock and providing additional housing opportunities in communities where rental properties may not have been an option before.
Just as states, counties, and cities are removing barriers and providing incentives to encourage homeowners to build ADUs, Fannie Mae is also working with our lenders to attract greater adoption and lower the cost of mortgages for homes with ADUs. We're exploring flexibilities around ADUs with several manufactured housing types as the primary residence, including our MH Advantage eligible homes, and HUDCO manufactured homes.

Through our lenders we're also facilitating a homeowner's ability to add ADUs to their properties with financing options such as Fannie Mae's Homestyle Renovation Loans, second mortgages like home equity lines of credit. And, as the Director mentioned, we're also testing limited cash out refinancings as a take out loan to pay off second mortgages and construction loans that were used to build or install an ADU.

We're also exploring ways to work with appraisers to include ADU rental income in appraisals, and with lenders to include ADU rental income in the underwriting process. This would permit someone purchasing or refinancing a home with an ADU to use that rental income to lower their debt to income ratios.

So I know with your continued support and engagement in the ADU space, we can have a substantial positive impact and increase in the availability of affordable housing supply.
across the single-family and multi-family mortgage market.

So, again, thank you all for your time and attention and engagement today. We look forward to the conversation, and I'll turn it back over to Rebecca. Thanks, all.

REBECCA COHEN: So I will now, actually, turn things over to my colleague, Toi Roberts, who will be guiding us through the rest of this afternoon.

So, Toi, please, take it away?

TOI ROBERTS: Thank you, Rebecca, and hello, everyone.

My name is Toi Roberts, a member of the Duty to Serve team here at FHFA, and I will be introducing all of the speakers at today's session. Before we move forward with hearing comments from the speakers today, I do have a few important housekeeping remarks.

As you know we have organized this webinar to obtain your input on the use of accessory dwelling units to increase housing supply. During today's session, FHFA will not discuss the status or timing of any potential rule making. If FHFA does decide to engage in their rule making on any matters discussed at this meeting, this meeting would not take the place of a public comment process. The rule making document would establish the public comment process and you would need to submit your comments, if any, in accordance with the submission instructions in that document.
FHFA may summarize the feedback gathered at today's session in a future rule-making document if we determine that a summary would be useful to explain the basis of a rule making.

Also, please, keep in mind that nothing said in today's session should be construed as binding on, or a final decision, of the FHFA Director or FHFA staff. Any questions we may have are focused on understanding your views and do not indicate a position of FHFA staff or the Agencies.

Today we will hear comments from 34 guest speakers, and midway through the session we will have a short, ten-minute break. Each speaker will have up to seven minutes to speak, and we will try our best to stay on schedule and ask that everyone speaking help us do so as well. I will chime in to give speakers a one-minute warning as their time draws to a close. If anyone does go over their time, unfortunately, I will have to interrupt you in order to keep us on schedule.

Each speaker will have the ability to mute and unmute their microphones throughout the session, but we ask that you keep your microphones muted until it is time for you to speak. We also ask that all speakers be prepared to turn on their video cameras during their speaking segment.

Finally, we want to mention that today's session is being recorded. FHFA will also prepare a transcript of today's session, which will include the names of all...
speakers and the organizations for which you all represent. We will post the recording and transcript on FHFA's website and YouTube channel, along with other materials related to today's session.

We also have a chat feature here on this line, and we were just hoping that you guys could just refrain from using that chat.

So now, without further to do, we will begin hearing from our guest speakers. The first speaker we will hear from is Ms. Danielle Arigoni from AARP Government Affairs.

Ms. Arigoni?

DANIELLE ARIGONI: Yes. Hi, Toi. Thank you. Good afternoon, everyone, and thank you to FHFA for hosting this important listening session.

As Toi mentioned, I'm Danielle Arigoni, Director of Livable Communities here at AARP, and I'm very happy to be here with you all today.

I'd like to start where we always start, which is looking ahead to 2034, the year when the US Census projects we will be a country comprised of more older adults than children for the first time ever. We use that date as a marker to assess whether communities are ready for the changes that will be required in housing, in transportation, in public spaces, and more.

Our conclusion is that, in general -- next slide,
please -- most communities are not ready for our demographic future. Not only does housing today not meet our current needs, but it also isn't well positioned to meet our future ones. Our housing stock is comprised of far more two-, three-, four- or more bedroom homes than we need, considering that more than half of all households are one or two persons.

Housing is too expensive, especially for older renters, for whom the cost burden is taking up an increasingly large share of their often fixed incomes. And there's a severe lack of housing that is able to meet the needs of people when their physical or cognitive abilities change. Next slide, please?

Our responsibility at AARP is to channel what older adults need. We know that the majority of people 50 and above want to age in their home and their community. Yet, less than half believe they'll be able to do so. For some, it's because their homes will require major modifications to meet changing needs. For others the cost or effort to maintain a large home is unsustainable.

In response, we are starting to see interest in creative solutions like home sharing, and, certainly, we've seen strong interest among older adults in ADUs, particularly for those who seek additional income, companionship, or help with daily needs. Next slide,
please?

Our understanding of older adults' needs drives our entire livable communities approach, in which we seek to support state and local leaders to put in place solutions that work better for people of all ages and abilities. We do that through our AARP network of age-friendly states and communities, now comprised of nearly 600 communities and 9 states, which are working to implement an age friendly framework for change.

We do that through our Community Challenge bank program, which, to date, has awarded nearly $10 million over five years in catalytic demonstration projects all across the U.S. And we do that through our nationwide club in 53 state offices, and thousands of volunteers. Next slide, please?

In order to support local and state leaders, we offer a range of free tools and resources to help educate and inform, and drive change. Those include our innovative livability index that assesses livability against more than 60 metrics, our new searchable map that lets users for replicable approaches and solutions, and nearly 20 free, practitioner-oriented publications on parks, housing, walkability, and more. You can find them all at the aarp.org/livable. Next slide, please?

But I want to focus on our approach to ADUs given how
important we believe them to be. They are at the center of our new housing strategy, and have been a focus of our state and local advocacy for many years. The reason for that is because we know them to be an important part of adjusting to housing challenges before us. Not only do they represent the needs older adults have expressed, but they also are a critical part of an all-ages approach to create more livable communities.

We recognize their ability to gently and incrementally change our housing stock by adding more small, affordable, and accessible options in existing communities. They provide an ideal solution for multigenerational living, which is already the custom in many cultural traditions, and increasingly desirable for more people for economic and other reasons.

We've gone so far as to create a new model state and local ordinance, several publications, national member-facing webinars, videos, and much more to make the case for ADU adoption and construction, all of which can be found through aarp.org/adus. Next slide, please?

Earlier this year, we released an update to our 2000 -- you heard that right -- model code on ADUs, which we developed with some of the country's top experts, and which represents our priorities for ADU production, including our preferences around owner occupancy, conditional use permits,
parking, and more. Our hope is that our model code can serve as a starting point for policy change, and expedite action at the state and local levels.

There are many ADU issues that remain to be resolved, as we just heard, but our hope is that our model code is a useful contribution to this collective space, and one that we hope spurs action. Next slide, please?

I previously mentioned that we've been engaged in local and state ADU advocacy for many years, including in Oregon, California, and Connecticut, which recently passed statewide ADU policy in part due to AARP's efforts. Many more localities have benefitted from AARP's engagement, including Louisville, Kentucky; Philadelphia, Pennsylvania; Burlington, Vermont; Chicago, Illinois; and more. But I want to focus, for a moment, on Des Moines, Iowa, which well represents how all of these efforts come together.

Beginning with their enrollment in our age-friendly network in 2012, Des Moines identified the need to create smaller and more affordable housing, including ADUs. That led to a local effort to secure an AARP Challenge grant to invest in the demonstration model to educate and inform local residents about what an ADU is and is not.

Finally, local officials themselves became convinced of the value of ADUs, in part, after reading our ABCs of ADUs publication, and called on the AARP state office to more
fully engage. As a result, AARP Iowa volunteers participated in public comment processes, and AARP enacted a public information campaign in Iowa about ADUs, all of which led to the passage of ADU policy in 2019. And AARP Iowa today continues to play the role of educator and proponent of ADUs through the website listed here. Next slide, please?

The work doesn't stop at the state level. Our own CEO Jo Ann Jenkins recently sat down with HUD Secretary Marcia Fudge to discuss the housing needs for older adults, and specifically addressed the importance of ADUs as part of that conversation. I encourage you to watch the full video at your convenience. Next slide, please?

I want to close by once again thanking FHFA for your leadership on this issue, and inviting you all to call on the AARP in your own ADU related efforts, including reaching out to your local AARP state office. I also encourage you to check out our livable homepage aarp.org/livable, or our dedicated ADU page aarp.org/adus. Thank you.

TOI ROBERTS: Thank you, Ms. Arigoni.

Next speaker is Ms. Lesli Gooch from the Manufactured Housing Institute.

Lesli Gooch: Thank you very much, Toi, and thank you to the team from FHFA, and everyone who's joining today. We're thrilled that the FHFA is looking at the role of
factory-built housing to address the shortage of affordable housing in this country, and we're excited to participate today and share our views about the role of Accessory Dwelling Units as a part of this effort.

The Manufactured Housing Institute is the only national trade association that represents all segments of the factory-built housing industry. Our members include home builders, suppliers, retail sellers, lenders, installers, community owners and operators, and others in the industry. Many of our manufacturers are currently building ADUs, which can be used in a variety of different ways.

In addition to the efforts to house the nation's homeless, there are applications for ADUs for primary residences. As we just heard from AARP, with more and more senior adults wanting to continue living independently as they age, as opposed to living in costly facilities, ADUs will allow families to stay close to their loved ones when they need extra help, while giving the older generation independence.

ADUs can also be used as extra living space at the primary residence. Many people can use it as a studio, a home, or office, or a space for the growing children, adult children. They provide a way to increase living space square footage without undertaking a major construction project.
One word of caution, though. It is critical that ADUs are constructed to a building code to ensure safety and durability. The ADUs that our members are constructing in the factory are built to the federal building code, the HUD Code -- which is called the HUD Code -- or constructed to the IRC. We believe that specifics about construction standards and installation must not be overlooked in efforts to expand housing supply. We believe in quality, safe, and resilient factory-built housing, and we encourage the GSEs and FHFA to take this into consideration as you look at expanding your role with ADUs.

Also, since this session is about boosting the supply of affordable housing, I would like to encourage a redoubled effort to support the availability of HUD Code manufactured housing. While we appreciate the FHFA exploring all options about addressing housing supply shortages in communities across the country, it's important to remember that the GSEs have a statutory responsibility to support the availability of manufactured homes. ADUs are not the primary factory-built option that will meet the nation's housing affordability shortage.

I appreciate the comments by Mike Dawson of Freddie Mac and Mike Hernandez of Fannie Mae during today's discussion about the work of the Enterprises with respect to manufactured housing. Our housing offers value to consumers
because of the technological advancements and cost savings that are also associated with the factory-built process, and because of the efficiencies of the federal building codes.

Manufactured housing is regulated by this code. We're built to one uniform federal code, and that single framework for home design and construction includes standards for health, safety, energy efficiency, and durability. We are delivering high quality, HUD Code homes with designs and features that consumers want at an affordable price point that is lower than site-built homes. Manufactured housing currently provides an affordable form of home ownership for more than 22 million people nationwide.

While it is important that FHFA explore all options to addressing the affordable housing shortage, this statutory duty and mandate to serve manufactured housing must continue to be a priority. In light of the impact of the COVID-19 crisis on the economy, we believe the importance of the Enterprises carrying out their charter, access to credit, and statutory duty to serve manufactured housing responsibilities are more important than ever. A strong secondary market for manufactured housing is crucial to ensuring that the affordable home ownership option can help families achieve the dream of home ownership.

We believe that Fannie and Freddie cannot be considered to meet their statutory duties without both a substantive
commitment to chattel loans and performance to match, and we believe that this conversation about ADUs falls within that conversation about personal property chattel loans. We strongly encourage FHFA to hold Fannie and Freddie accountable to meet their statutory requirement to serve manufactured housing.

It is also important that while FHFA explores alternative housing solutions for addressing the affordable housing shortage that it also look at zoning policies as barriers that restrict not only manufactured housing, but ADUs as well. Zoning and land planning ordinances have a profound impact on housing patterns.

For example, restrictive local ordinances are discriminatory barriers that prohibit the placement of affordable housing. Across the country we have countless examples of state and local zoning, planning, and development restrictions that severely limit or ban the placement of HUD Code manufactured homes. Until such restrictions are addressed, neither manufactured homes nor ADUs will be able to reach their full potential.

Again, we appreciate the efforts by FHFA to explore alternative housing solutions for addressing the affordable housing shortage in this country. While we support the role of ADUs, we strongly urge FHFA to ensure that Freddie and Fannie prioritize solutions involving HUD Code manufactured
homes as well.

Thank you for your consideration of our recommendations, and my opportunity to speak today.

TOI ROBERTS: Thank you, Ms. Gooch.

Our next speaker is Ms. Faith Bautista.

FAITH BAUTISTA: Good morning, and thank you, Director Sandra Thompson for doing this listening tour.

I'm one of the original members of Project Reach of OCC and started the L.A. Reach, and our main focus is ADU. And I, myself, going through ADU right now, and it's the biggest pain. We started this in February, and up till now I'm not getting the permit.

So I summarized what I'll be saying here. So if I overdo the seven minutes you're going to time me, right? So in California it's really friendly on ADU. In fact, CalHFA gives $15,000 grants to help the low, moderate income have an ADU.

But these are some of the observations that we have.

The appraisals don't always reflect an increase in value.

No more change needed, but comfort from regulators. Not the CRA regulators, the safety and soundness regulators, that they are not going to view a high LTV loan to do an ADU as a high risk would be helpful.

Also guidance from CFPB that will view an ADU loan as meeting ATR rules if the prospective grant is sufficient to
cover the payments on the ADU loan would be helpful. Looking at overall income and debt of the borrowers in household where they may be already stretched might disqualify some of them that it’s a good loan for them. And also the cost and time of documenting this makes it more expensive to do a $50,000 to $150,000 that many borrowers want. So it can be done under existing rules, but done as now it makes the yoke heavier, and so harder and costlier to do these loans. This may be an area where the well intentioned CFPB rules hurt the people they are trying to help.

The consumers disclosures of construction laws are also quite complex. I don't see the regulators changing them, but they are crazily complex and rigidly enforced with little tolerance. Many lenders will not do consumer construction loans for this reason. Changing them may not lead to a burst of ADU lending, but it is a lot of little things that could up and help.

The construction loans are done with a lot of monitoring and work before a draw request on the loan is processed. The lender will have an inspector look at percent of completion to make sure that the loan funds are not being spent faster than the work is getting done and there will be no shortfall at the end. The lender also checks to make sure all contractors and subcontractors are
getting paid, and this takes a lot of time before the loan
is made. The lender will look at the plans and cost
estimates to see if they are reasonable, and if the loan
plus borrower cash will cover it with some extra in reserve.
It is something for the lenders to figure out how to do this
in a more cost effective risk-focused way for these small
loans. A $50,000 and $150,000 cannot reasonably bear
$10,000 to $20,000 of review and inspection costs.

TOI ROBERTS: Less than a minute remaining.

FAITH BAUTISTA: So, you know, this is the one that's a
problem for a borrower like me. The (indiscernible)**
0:32:26 the time and effort to get permits to the building
inspectors to sign off on the work creates a lot of delays
and a big effort on any project. So it really makes a big
difference when the mayor started talking about it. It has
to be the city's inspector and all those people that need to
approve your ADU.

Thank you so much.

TOI ROBERTS: Thank you, Ms. Muerta -- Bautista. I'm
sorry.

FAITH BAUTISTA: Bautista.

TOI ROBERTS: I'm sorry.

Okay. And our next speaker is Ms. Sharyl Silva from
the California Housing Finance Agency.

SHARYL SILVA: Hello, everyone. I'm Sharyl Silva from
Cal HFA, and we are very excited to announce a new program. It's something that we've never done before, and it is going to be a $25,000 grant to help with the construction of an ADU.

This program will be open to all of the Cal HFA approved lenders that want to sign up. So far we've had six lenders sign up with, you know, several more that are pending, and this will be for pre-development costs. So this grant can be used to pay for things like permit fees, soil tests, architect design, and things like that.

To qualify for this program you would have to be low income, have low equity, or be in a qualified census tract. So the first qualification is if you're low income, which we call 80 percent AMI or less, you automatically qualify. If you're more moderate income, you can still qualify if you have low equity.

So we look at low equity as having a CLTV greater than 80 percent. So moderate income for us would be 150 percent AMI. So 150 percent AMI and 80 percent or greater CLTV will qualify. Or, if you are a moderate income person and you also are in a qualified census tract, you will qualify.

The home has to be owner occupied that you are building the ADU unit on, and the grant gets dispersed directly into the construction renovation escrow account. We did announce this program in mid-August, and it goes live on September
20th. We've had tons of feedback, lots of excitement. We have marketing materials on our website. We've reached out to several nonprofits and local and city, counties, to figure out ways that we can combine our programs with theirs. So if they have, you know, money to offer and we have money to offer, maybe we can combine them together so that the borrower can get as much as possible. And everything, our term sheet, and all of our information is on our website, which is calhfa.ca.gov.

Thank you so much, and if you have any questions, feel free to reach out to us. Thank you.

TOI ROBERTS: Thank you, Ms. Silva.

Our next speaker is going to Mr. Tobias Peter from American Enterprise Institute.

TOBIAS PETER: Good afternoon. Is it possible to pull my slides up?

Perfect. Could we go to the next slide, please?

Thanks.

ADUs are one important piece in the toolbox to address the severe housing shortage; however, by themselves, they are unlikely to be an adequate solution. We need to utilize other tools, such as streamlined approval and by rights zoning for duplexes, triplexes, and fourplexes, which, as they will demonstrate, can have a much larger impact in expanding supply than ADUs alone. We believe that modestly
increasing residential density around walkable commercial
amenities could cut the Gordian Knot in zoning reform and
add around two million new homes over a decade entirely to
private enterprise.
In addressing the supply shortage, history has shown
that heavy handed or one-size-fits-all federal government
approaches must be avoided so as to reduce unintended
consequences. What is fundamentally a local and state issue
can and should be resolved at these levels. State and local
solutions are moving in this direction with increasing
momentum. Next slide, please? Can we go to the next slide,
please?
Why are ADUs an important component of the loan, but
they won’t suffice? First, surveys indicated that you need
to build two ADUs to add one unit of supply. That is
because people use ADUs also as short-term rentals, or other
purposes like extra space or spare rooms for guests. Next
slide, please? Thank you.
ADUs are also attractive to largely childless singles
or couples, but we need a broader set of homes that also
appeal to larger household types. Next slide, please?
In California and other places, ADU permitting appears
to have peaked for now, indicating that ADUs might fill only
a small fraction of the supply shortfall. Next slide,
please?
At the current pace, it will take a very long time for ADUs to meaningfully add to supply. Examples from Portland, Seattle, and Los Angeles show that it would take around 25 to 80 years to add 10 percent to the existing supply at the current pace. Next slide, please?

Single family detached zoning policies espoused by the federal government starting in 1921 and widely adopted around the country have constrained the private sector's ability to build adequate housing. That's fueling housing unaffordability. While federal government policies have largely created today's problems, to solve it heavy handed federal government approaches must be avoided. What is fundamentally a local and state issue can and should be resolved at these levels. There's also next, modest changes to zoning can have a big impact on supply. Next slide, please? I'm going to skip this one. Can we go next one?

Okay. So this is the first case study, which is on Palisades Park and Leonia Boroughs in Bergen County, which is just across the George Washington Bridge from Manhattan. From the zoning map you see that Palisades Park mostly allows for duplexes, while Leonia, mostly, only allows for one-unit homes to be built.

Both boroughs are about equal in land area, they are equally landlocked with little extra space to develop, yet Palisades Park has grown tremendously. It has achieved this
entirely without government intervention by converting its one-unit housing stock to newer and more environmentally friendly duplexes. For example, Palisades Park experienced a 24 percent increase in its housing stock over the period from 2000 to 2013, while Leonia's was flat. Today, Palisades Park has twice the population of Leonia, a more vibrant commercial area, and lower taxes. Next slide, please?

The second case study is about the city of Seattle, Washington. As you see from the simplified zoning map, Seattle allows for moderately higher density in parts of the city. Those are the blue areas, which are called the lowrise multifamily zone. When we compare outcomes we can again see the impact of the simple zoning change.

The single-family zone contains almost three times as many units as the lowrise multifamily zone. However, since 2000, the lowrise multifamily zone has added twice as many new units as the single family zone. In other words, the lowrise multifamily zone has added 35 percent to its housing stock, while the single-family zone has only added 7 percent.

The price points of these new units are also quite telling. New homes in the single-family zone are largely McMansions that are valued at 40 to 50 percent price premiums over the existing stock. New (indiscernible)**
0:40:28 are valued at the moderate 10 to 20 percent price premium over the existing stock in that zone. Next slide, please?

We believe that Walkable Oriented Developments, or WODs, can provide the solution to cut the Gordian Knot of zoning reform. A WOD is an area that's in a ten-minute walk of a set of existing commercial amenities. WOD would bring housing closer to service jobs, thereby reducing transportation and housing costs, and freeing up time for other activities such as recreation and child care.

We have identified such areas across the entire country. In modestly increasing residential densities in such areas, even going just from a one-unit to a two-unit structure would add two million new housing units over a decade. It would also enhance the vibrancy of the commercial area and yield significant growth in property tax, while also allowing the tax rate to fall. Benefits from increased density in WOD provide the logical focus for FHFA in its effort to remedy zoning constraint on supply.

Next slide, please?

Here is a map of the larger DC metro area where the purple shaded areas are the WODs. You can see only about 25 percent of housing units are in a WOD, thereby leaving the vast majority of the metro unchanged, which should help blunt NIMBY opposition, and similar percentages apply across
the entire nation. Next slide, please?

Walkable oriented development -- WOD -- offer policymakers a sensible middle-of-the-road strategy to build a winning coalition to moderately increase density and to add to housing supply. WOD offers an alternative to doing nothing, and doing something that is highly disliked, like high-rise development or entirely abolishing single-family zoning. It also offers an opportunity to create a coalition of many interest groups, which are listed on this slide, and range as far from environmentalists, to conservatives, and many more. Next slide, please?

This slide really rounds out some of the other advantages of WOD. The one that stands out to me is that a change from moderate up-zoning will be gradual, giving people time to adjust, or, alternatively, to move.

To conclude, we think that with WODs we have a blueprint here to address the housing shortage at the state and local level. WODs can speed up and expand the process to change zoning at the state and local level; that is already increasingly happening. The key, however, is to avoid one-size-fits-all Federal government policies. Thank you.

TOI ROBERTS: Thank you, Mr. Peter.

Our next speaker is Mr. Scott Bernstein. One moment for your slides. Mr. Bernstein? Mr. Scott Bernstein?
SCOTT BERNSTEIN. Can you hear me now?

TOI ROBERTS: Yes.

SCOTT BERNSTEIN: Great. Thank you. Thanks for the opportunity to join this wonderful session. Next slide, please?

I want to use my few minutes to identify some of the benefits for cities that can be used to address the affordability, sustainability, and supply issues that (indiscernible)** 0:44:00.

TOI ROBERTS: I'm sorry, Mr. Bernstein?

SCOTT BERNSTEIN: Yes?

TOI ROBERTS: Your microphone's not clear.

SCOTT BERNSTEIN: Oh, boy. Hold on one second. Is that better? Can you hear me?

TOI ROBERTS: Yes, I can hear you. We have some static. Go ahead.

SCOTT BERNSTEIN: Thanks again. What I want to do is identify some actions for FHA's consideration in supporting the purchase of ADU loans by the GSEs. Next slide, please?

Cities have several hidden assets. The first one is underutilized lots. To put a number on what other people have said, there are currently 78.5 million single-family dwellings in the United States. Two thirds are on lots of less than half an acre, and one third on a half acre or more. The most common accessory structure is a garage or
carport, 85 percent of these. By far the most common accessory is housing for cars, not people. Next.

UNIDENTIFIED: Scott, if you unplug your earphones it might be better.

SCOTT BERNSTEIN: Yeah, I did unplug my earphones. I'm sorry. You can read along with me.

You know, if you implement low-build or no-build least cost housing by sharing housing, history shows that the housing supply can increase rapidly. The number of rooms per occupant in the U.S. in 2018 was five rooms per person for single-person households, and over six for two-person households. Today, there is over 40 million adults living in someone else's home. The census updated (indiscernible)** 0:45:51 10 percent higher than that.

Next, please?

So the trend in U.S. households by persons per household shows a constant drop (indiscernible)** 0:46:07 to 60 percent of households with only one or two people in them, and yet we keep increasing the average size of a building per household getting built. Next, please?

So, as several people have said, despite sprawl, U.S. cities and towns are highly urbanized with walkable urban character, and cities have a walkable character, you know, within a 15-minute shed. They also have a transit-oriented shed where transit exists.
So (indiscernible)** 0:46:48 and that's one of my messages here. Next slide.

So a workable solution is to plan for both local convenience and regional connections, and that would mean looking for locations and prioritizing them where we can minimize transportation costs per household, because, otherwise, putting ADUs in places with high transportation costs is actually increasing the cost of housing instead of lowering it. Next.

So ADUs can increase density without (indiscernible)** 0:47:37 much in the way of new infrastructure costs. They're a form of missing middle housing which further (Indiscernible)** 0:47:42. Next?

(Indiscernible)** 0:47:59 experiment with Fannie Mae in (Indiscernible)** 0:48:08 million dollars in mortgages as an underwriting experiment in location efficient places. And the bottom line was that of two thousand loans there was only one default (indiscernible)** 0:48:18. Next. Next, please?

So to conclude I have some recommendations, some scenarios. FHFA could take action to signal GSE ability to purchase ADUs further, including guardrails for affordability and location efficiency which would be a big (indiscernible)** 0:48:42 accelerate zoning reform. FHFA could use the location affordability factor index created

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and adopted by HUD in their automated underwriting systems to identify the benefit of locating (indiscernible)**

0:49:02.

TOI ROBERTS: One minute remaining.

SCOTT BERNSTEIN: (Indiscernible)** 0:49:04 marketed as first time homebuyer products. They should also be exclusively marketed (indiscernible)** 0:49:12 purposes where that makes sense. This signal could offer an opportunity for partnerships with cities to adopt zoning (indiscernible)** 0:49:21 could expand this effort to support (indiscernible)** 0:49:29. Thank you very much.

TOI ROBERTS: Thank you, Mr. Bernstein. We apologize, but your audio was not that clear and we will look forward to sharing your slides and if you can just, maybe, think of a written statement of your own. At least today, that would be helpful.

SCOTT BERNSTEIN: I will do that; thank you.

TOI ROBERTS: Our next speaker is Mr. Skip Schenker from Guaranteed Rate Affinity.

SKIP SCHENKER: Hi. Good afternoon, everybody, and thank you for giving me the opportunity to speak today. Can you hear me okay?

TOI ROBERTS: Yes.

SKIP SCHENKER: Good, good. Okay. So my name is Skip Schenker. I'm with Guaranteed Rate Affinity, and I've been
specializing in renovation loans for over 25 years. I've been fortunate to help many homeowners build accessory dwelling units on their homes, and so I just wanted to share the perspective of a loan originator on the street.

Some of the tripping hazards -- I'm going to call them tripping hazards, or gaps -- of the challenges of the difference between people that want to build ADUs versus the challenges that we've had with the financing. And so the first challenge that we've had that I want to talk about is the way the homes are appraised. And so we want to allow the appraisers to use the square footage of the ADU as gross living area. This will help increase the value of the ADU and help the cost to finance it.

So one of the problems is the cost may be $250 a square foot to build, but if they're building a 1,000 square foot ADU, it could cost $250,000. But without the proper guidance from the FHFA for the appraiser, a lot of these appraisers are bringing the value in only an additional $50,000 or $100,000. So that's creating a gap of not having the values defined against using the FHA 203k loan or the HomeStyle Renovation Loan. So utilizing the GLA the same as the primary residence will give greater value, which will allow us to finance more homeowners wanting to build an ADU.

We can also consider income approach or the cost approach on the appraisal, but that's one of the main
challenges that we've had.

Another challenge is allowing the underwriters to underwrite the local ordinances. Some MSAs have greater need for housing than others. Having a one-size-fits-all across the country makes it challenging for those MSAs, those cities, and local areas that want to be more flexible in providing financing. So we think it's a good idea to allow the local cities, the underwriters to allow the underwriting for those specific cities and counties in an effort to, maybe, finance an ADU and a junior ADU on the same lot.

The other thing -- and we've talked about it -- is using rental income. What I'd like to talk about is, on a renovation loan, we're using the future value to appraise it, and we'd also like to be able to use the future rental income. So using proposed rental income to help offset the additional cost of the mortgage. So the mortgage may go up by $800 to add on $150 or $250, $1,000 in the loan, but the rental income is going to be $1,500, $2,000, it will definitely offset that additional PITI to that homeowner.

Also, one of the challenges that we've had is that Fannie Mae guidelines don't allow for separate utilities, and we think it's a good idea to allow separate utility meters for the ADU, because managing the utility expenses is easier if the party who's living in the ADU is actually
paying. They'll be, surely, more conscious of consuming electricity and gas and water if they have to pay for it themselves.

So we encourage allowing separate utilities for the ADUs as well, and then, also, having a separate address. It's a little, funny underwriting guideline that Fannie Mae has is they don't allow a separate address for the ADU, and we encourage that the ADU would have a separate address. This way, the mail carrier can deliver the mail to the right person.

Again, quick summary, allow square footage for gross living area on the appraisal, allow the underwriter to underwrite to local ordinances, use proposed rental income to help qualify for the loan, separate utility meters is okay, and then, also, a separate address. And I'm available; just Google me if I can help anybody with anything along the way. Thank you for your time.

TOI ROBERTS: Thank you, Mr. Schenker.

Our next speaker is Grace Currid and the Homebridge Finance Services.

GRACE CURRID: Hi. Can you hear me okay, hopefully?

TOI ROBERTS: Yes.

GRACE CURRID: Thank you. So I am with an independent mortgage banker, and so prior speakers, and I'm sure speakers after me will discuss the needs and why it's
important, which, clearly, we agree with. My objective is
to provide a lenders perspective as to some of the
challenges and concerns we have selling the loans in the
secondary market. And I would echo a lot of what Skip said
before me, but, certainly, I would agree with a lot of what
he said, but just would like to add a few other points.

There's still a lot of ambiguity in the entire arena of
what is an ADU, and so one of the first points I'd make is I
think we need to have much clearer definition as to exactly
what is an ADU. So what will happen, as an example, there's
a lot of discussion between what's an ADU versus a summer
custom kitchen versus an in-law suite versus, you know, the
boomerang adult children coming back to the home. So
there's still a lot of ambiguity and the Agencies will put
comments on there about things to consider, but they're not
necessarily hard guidelines, so it makes it difficult for
the lender to even determine is this in fact and ADU that
the guidelines have to apply?

Another example is the inconsistency. One of the
agencies, as an example, they use in their FAQs if you have
a walk-out basement unit, you know, a basement area that has
a walkout, 'cause there's an exterior edge there, but
there's also interior access, that is not an ADU for one
agency. It is an ADU for another agency.

So, again, needing very specific guidelines and for the
lenders to use them -- we're all on the same playing field -- would be important.

Another thing, again, Skip talked a little bit about this, but, the restriction on only allowing one ADU on a one-unit. If you think about what happened, as an example, in California, which is one of our, you know, the largest state -- they've actually enacted legislation that allows both an ADU and what they're calling a junior ADU.

So that whole idea is, again, critical for the affordability factor for potential homeowners. That restriction, I believe, needs to be lifted or amended to talk about what's common and customary in the market, what meets zoning. And, again, if it's common and customary, there's marketability, there's no negative effect on values, that should be the driving factor, because, again, that California legislation didn't help anybody that's selling loans to Fannie Mae and Freddie Mac.

Another restriction is that ADUs are not permitted on multi-family. Again, if you think about -- I'll speak in the New York area, the five boroughs -- I mean, every two- to four- has an ADU in the basement. It's, again, very common and customary, has been that way for many, many, many years, and if, in fact, something that seems an ADU, and it is a two- to four-family property, it is immediately ineligible.
And that also gets back to what's said at the beginning. What defines an ADU? So if you have a clear definition that everybody applies and says, well, this is not an ADU, then it doesn't matter, you know, what's going on at that point. But for the same reason, on single family it's the affordability factor. It's what's common and customary for the area, so that would be something I propose FHFA would revisit.

And the last thing I would want to bring up is resolution when something is deemed not to be an acceptable ADU. So, as an example, for right now if I have multiple ADUs on a single family, or I have an ADU, you know, on a multi-family property, or multiple ADUs on a single, how do I resolve it?

Is it okay? Is the property just completely ineligible? Do I have them, you know, wheel out the proverbial stove, and they get that out of there so as the appraiser's pulling out of the driveway they're wheeling it back in? You know, what constitutes resolution that would be acceptable to the Agencies when you deem it to be, you know, unacceptable? Or, what if the borrower just turns around and says, well, I'm not using it as an ADU. It's a summer kitchen; it's for when my in-laws, you know, visit me; it's for, you know, my adult kids who came back because of Covid? It's where my guests stay. Is that sufficient to
get the borrower affidavits.

So, again, we all know we need ADUs because it addresses affordability, and just availability of homes to be the practical issues that we as lenders face every day. And thank you for the opportunity to speak.

TOI ROBERTS: Thank you, Ms. Currid.

Our next speaker is Ms. Meredith Stowers from the
Stowers Team/Cross Country Mortgage.

MEREDITH STOWERS: Hi. Thank you, and I have some slides here. It's good to see great people here like Skip and others. We are on the front lines of -- can you show the first slide, please? There we go. Sorry, I'll make it quick.

We are on the front lines of talking to clients -- very first slide -- and we're one of the largest ADU lenders in the state. We started out primarily with cash outs. I'm a founding member of the ADU coalition. I'm on the board of the Casita Coalition, also working with AIA, NAHREP, Building Industry Association, and so on. Next slide.

So we talked to 10 to 20 clients a day or so, over the last three years -- oh, go back. The two questions are do ADUs create greater financial resiliency? And do ADUs make housing more affordable? You've gone over that. Go ahead, next slide.
Yes. The extra rent makes it affordable to buyers and also makes housing more affordable for every type of buyer or homeowner. Bottom line is where else can you buy or rent a $200,000 new, custom-built home in California? And it's not only cheaper for the buyer, but it's cheaper for FHFA to subsidize, as compared to a $700,000 typical San Diego or L.A. home. Next slide.

So what do ADUs look like? I think this is important. This is not shanties. These are multigenerational homes that connect to each other, garage conversions, and, on the lower right, it's a manufactured home, three bedroom, gorgeous, manufactured home. We're seeing those stuccoed, and they're still very affordable for a larger family. So, even though those are not home home, often times they can be. Next one.

And clients, our clients are not wealthy people. They are retirees. Remember, most of the retirees today are young Baby Boomers who got caught in the middle of that switch from pensions to 401ks. They've paid off their homes, but they don't have a lot of retirement income. Also, caring for parents, multigenerational families, and first-time homebuyers. A first-time homebuyer as much can buy a duplex and have that extra rent, but they can also buy a single-family home, and, in California, and add an ADU and JADU for extra income.
My clientele matches what the Terner Center at Berkeley says as who is using this. Next slide.

So the big challenges, you know, my colleagues have talked about. You cannot use rental income, which people like retirees really need that extra rental income to qualify, and so on. You can read the slides. Next slide.

How do we fix these? Well, treat ADUs as a rental property. If it walks like a duck and talks like a duck, let's call it a duck. By calling ADUs a rental property it solves all kinds of problems. You can allow rental income to qualify. You automatically match zoning rules as they change.

So, for example, San Diego -- and, we believe L.A. County -- is now going to allow multiple ADUs on a single-family home. Well, as long as you can treat an ADU as a rental property, not only can you finance those up to four units, the way FHA has been doing, but you can get better appraisal values. You can increase the loan limits as needed. We're definitely running up against loan limits and so on. So, treat ADUs as rental properties in the guidelines. The appraisers are afraid to appraise these ADUs as a rental guideline because the guidelines are unclear. Go ahead.

Next challenge is investors are strictly limited with ADUs. Next slide. Why not allow investors to invest ADUs?
My research shows on this search of title and prospect data, only one percent of L.A. County single-family homes are owned by companies. Everything else, only 14 percent of single-family homes are non-owner occupied, but who are they owned? By individuals, family trusts, community property. Most of those are starter homes, and, if grandma wants to allow the grandkids to move into an ADU on her rental property, why would we treat her, necessarily, as an investor or something like that, when we can treat them as family?

I also strongly believe that in the case of ADUs, you should allow boarder income. We used to call them boarding houses, and the Millennials are calling them co-living spaces. Go ahead and next slide.

Challenges, manufactured homes. Yes, you guys said you can do manufactured homes; but, if you read a little further down in the guidelines, you say that the cost of renovations must not exceed $50,000 or 50 percent of the as completed price. I actually think this is a glitch in the guidelines.

Next slide.

We need to clarify in those guidelines that this does not apply to allowing new manufactured homes being added to the property as an ADU. It's a dumb glitch, but our Fannie Mae rep won't do it. Other lenders won't let them do it. And other lenders, their Fannie Mae rep says, yes, that's no
By the way, why do we care if it's attached or detached from the home? Shouldn't matter. Next slide.

Paying for startup costs. If you go -- next slide -- if you could look at the timeline, it takes about a year to do this. First two months are designs, which cost five to ten thousand, and then you've got permits, which are four to six months. Those total costs can go anywhere from five to forty thousand.

Freddie -- thank goodness, genius -- you're allowing us to pay off those loans so they don't count to DTI. CalHFA and others are working on grants. One of the things that -- next slide -- we're looking at is ADU jumpstart financing. We've actually been working on this with El Dorado and Placer Counties in L.A., where, when we first talked to clients about the L.A. -- next slide -- we approved them for the jumpstart funds, and our own draw desk authorizes draws directly to pay for designs and permits, so there's no out of pocket costs for those widows who don't have any savings. Go ahead.

Then -- next slide -- and as they go, as permits near completion, then we start the renovation loan -- next slide -- because you're not going to have rental income to pay for the extra. This reimburses those grants so the money goes back to the nonprofit -- next slide --
MEREDITH STOWERS: Go ahead. A new customer can now get those funds. The funds aren't sunk into the house, construction begins, and so on. Next slide, and then we finish up. Go ahead, next two slides.

So this is common sense lending for ADUs. A lot of this is guideline changes. Treat ADUs as rental properties, allow investors, clarify the glitches on manufactured homes, eliminate detached versus attached. Let's just add housing and allow for startup funds the Freddie did. Bottom line is we can double the housing stock at half the price. Why invest in $700,000 homes when we can buy them at $200,000?

Thank you for your time.

TOI ROBERTS: Thank you, Ms. Stowers.

Our next speaker is Ms. Florentine Christian from Sidekick Homes. Ms. Florentine?

UNKNOWN SPEAKER: You're muted.

TOI ROBERTS: I'm sorry.

FLORENTINE CHRISTIAN: Thank you. Thank you.

So I am Florentine Christian, founder and CEO of Sidekick Homes. We assist homeowners every step of the way through their ADU development process. We've assisted over 200 property owners with their ADU needs, and so we literally are the boots on the ground. We are having one-on-one conversations with the homeowners who are wanting
to build these ADUs.

So I would like to expand on the opportunities offered by the ADUs beyond those which have been presented thus far to also include social equity and fostering sustainability, and I would also like to share what I am seeing firsthand as the obstacles that are preventing homeowners from building ADUs.

So, as has already been discussed, ADUs provide an opportunity for us to build much needed housing, and, in addition to that, they also provide an opportunity for middle America to create financial resiliency that can affect families for generations to come by providing that additional stream of income. There are many families who may not ever have the opportunity to own an additional rental property, but may be able to access having rental property on their existing property.

In addition, the majority of ADUs that we're seeing here in Southern California are being built by owner occupants, and what that means is that that rental income is staying in the communities where people live, as opposed to other forms of rental income such as large apartment buildings, where, often times, that rental income, especially in lower income areas that represents the majority of people's income, often leaves the community. So in this way we actually create more financially sustainable
communities.

The other thing that ADUs can do is they can help combat the displacement that often happens as a result of gentrification. It creates housing for community members who live in communities for a very long time, helping them to be more financially resilient, and also offering housing to, potentially, family members or other people in the community who would like to stay and have affordable homes in the community where they have been accustomed to living for many years.

They also offer financial sustainability. As we are looking at developing new housing, ADUs do not require more land space in order to build, so they save on land resources. They're also generally more compact in size, and so they require less building material and tend to be more energy efficient in terms of operating.

They also provide tremendous cost savings for elder care, to be able to have that senior member of the family living on site, and they have been fantastic for also helping with child care, especially during the pandemic, where a lot of children have needed assistance with schooling at home. Having grandparents living on site has been tremendously helpful for the family unit, and decreasing stress that otherwise families have faced.

So let's talk about some of the obstacles that I am
seeing firsthand. First of all, what I'm seeing is the access to lending. So most people that are talking to us about wanting to build an ADU are able to access some funds. They are able to access some equity in their house. But what we're finding is most people need to be able to draw from multiple sources of income in order to finance an ADU. And so people who have cash reserves, or who have a family member they can borrow from, are much more likely to get their ADU built, in addition to being able to borrow against the equity of their home. Those who are less likely to have access to generational wealth are less likely to get their ADUs built, and this is disproportionately putting people of color at a disadvantage from being able to reap the benefits of having an ADU on their property.

We have talked about lending guidelines and that really is the space more for our lenders to speak on the technicalities of that; however, I will tell about some of the things that I am seeing. I'm seeing that the limited access to federal funds, based on properties, can actually limit the amount that somebody could borrow. So even though they may have the equity, the federal guidelines have certain lending requirements that when you're in an area, such as Southern California, with very high home values, it can place limits on what people can borrow that really don't seem to make sense compared to their income and the equity.
that they may actually have in their home.

And then it has also been mentioned, rental income. Rental income definitely should be added when considering somebody's debt to income ratio. It adds substantially to the homeowner's capacity.

Even if they're not going to rent the property out and are going to have a family member live on site, we have to consider that there are now two households, potentially two working households, that are living on this property that are able to, you know, make that mortgage payment. This not only creates more income, obviously, for debt to income ratio, but it also creates more security, I would think, for the lender, knowing that should something happen to one of the occupants at that property, they lose their job, etcetera, there is another income earner on that property, and so I believe that it will make properties less likely to potentially default if the occupants run into hard times.

What we're seeing is that ADUs are actually paying for themselves, and those cases in Southern California within five to eight years. So a thirty year loan for a property makes complete sense; in higher income areas they're paying for themselves within two to three years. So they're a very, very cost effective way of building.

I will reiterate what some of our lender partners have spoken about. Appraisals are one of the biggest challenges
that we're facing. We're seeing situations -- I've seen it numerous times -- where homeowners have gotten a zero value for their ADU that they have spent a good chunk of change to build, or sometimes they're getting, maybe, a $20 increase.

There are already resources. There's an appraiser Denis DeSaix who has put together an amazing course on how to appraise properties with ADUs in accordance with the existing guidelines. We need training to be put out to more appraisers, because almost no appraisers have this training. I do think that every AMC should have at least one qualified person that can appraise a property with an ADU.

The way that this is affecting homeowners is on the resale market for ADUs. Well, first of all, obviously, when someone's trying to borrow against the property, they may or may not be able to get the value based on the appraiser. But what we're seeing with presale is that --

TOI ROBERTS: One more minute remaining.

FLORENTINE CHRISTIAN: Thank you.

Investors who are coming in with all cash have an advantage to purchasing properties with an ADU, because they're able to purchase without a appraisal contingency, whereas the homeowner who could really benefit from owning that ADU and having that extra unit space who has to go through the funding process, it's going to be less likely for that appraisal to come in, because of the issue we're
having with appraisals, and, therefore, sellers are more likely to give favor to an investor buyer versus a homeowner buyer, very much putting homeowners at a disadvantage in being able to get in on the benefits of these ADUs.

So with that, I will conclude, and thank you for putting on this very, very important panel. It's very much needed. Thank you.

TOI ROBERTS: Thank you, Ms. Christian.

Our next speaker is Mr. John Anderson from Tri-Cities Building and Land. Mr. Anderson?

JOHN ANDERSON: Can you guys hear me okay?

TOI ROBERTS: Yes.

JOHN ANDERSON: Great. I am in heated agreement with almost everything Skip said, except for the prospect of separate utilities. I think it's great to provide for the opportunity for separate utilities, but not the obligation, as cap fees and providing those separate utilities can be a huge cost in some areas. So, opportunity, not the obligation.

And I want to amplify what Meredith Stowers brought forward with the idea that is it so hard to think about this as a rental property, as a two-unit property? I think that the largest crisis we're seeing in ADU lending may not, in fact, be the guidelines from the Agencies, it may be an allergy or an inability to read the damn underwriting
guidance that's in place now. All the Enterprise outfits identify a residential loan as one to four units, actually one to four units plus up to 35 percent non-residential space if it's allowed under the zoning.

But if you present a project that has one to four residential units and up to 35 percent non-residential space that complies with the zoning. Underwriters and lenders seem to have a really time with that. So by presenting, basically, chapter and verse from the underwriting with your loan application, we've had very limited success, maybe one out of ten loans that we've applied for on that basis.

So the opportunity for reinforcing the policies that are desired down to the level of the loan officer, to the appraiser, to the underwriter. I think that putting together training, potentially in cooperation with the Appraisal Institute, that if you had a fourplex, you would be able to appraise that based on square footage, gross living area. You could appraise it based on income approach. You could appraise it based on cost estimates. If you are underwriting a fourplex for an investor who's putting down 20 percent under the typical Fannie or Freddie mortgage, you're able to count 75 percent of your gross income toward qualifying for the loan.

So the idea that somehow that can't be used as qualifying income for an ADU seems like a petty and,
frankly, stupid requirement.

If we look at a house with additional units as one to four units under most of the other guidance that's there, you run into also problems with the idea that if the local zoning requires it to be owner occupied, is that borrower now in default if it is no longer owner occupied? As opposed to the one year owner occupancy requirement under the typical three and a half or five percent Fannie and Freddie loan.

I think that the local zoning requirement of either the ADU or the principal house has to be owner occupied is a bogus requirement, a cynical piece of political expediency. And I think that the more we can see response from the finance side saying these are very reasonable things, it starts to stack up against that sort of cynical political expedience in the face of the housing crisis we have now.

In terms of defining ADUs, the International Residential Code and International Building Code define definition of a dwelling unit as a place of residence that also has permanent cooking facilities. It you were to add onto your house without a kitchen, that might be considered a guest suite, but it is part of the house. It's part of that dwelling unit. It's the presence of a stove or a cooktop installed in a countertop that amounts to permanent cooking facilities.
So I think that it would be reasonable to use the International Building Code as a standard for what is a dwelling unit, and an ADU is a dwelling unit somehow subordinate to the main unit, or it's a duplex allowed under local zoning and can't we just get on with it?

So I thank you for this time and I hope that we can see some movement in the way that the underwriting is expressed and explained to those who actually have to do it. I'll yield the rest of my time.

TOI ROBERTS: Thank you, Mr. Anderson.

Our next speaker is Mr. Steven Dietz. Give us a moment for your slides to be uploaded.

STEVEN DIETZ: Thank you.

So my name's Steven Dietz. I'm the founder of a company in L.A. called United Dwelling. We are the largest builder of ADUs in Los Angeles. Next slide, please?

We represent about three percent of ADU permits pulled in L.A. this year. We'll build about five hundred units next year -- a little over a half of them are already under contract. And the way we work, which is what I'm going to speak to, is we use data in very deep ways to understand who to market to, where ADUs can fit, and I wanted to share some of the data, get away from the anecdote that a lot of the conversation around ADUs doesn't use hard facts. Next slide, please?
So first is just because you have space doesn't mean an ADU will fit. We've identified 233,000 parcels in the city of L.A. where an ADU would actually fit in the available space, if you remove an existing parking structure, or if it fits without. The interesting thing is that there's a 60-40 split multi-family versus single-family, but if you look up the 11,900 building permits pulled for ADUs since the beginning of 2018, it's a 40-60 split the other way. There's actually reason for that we'll get to, which comes down to the availability of financing. But this is the first interesting thing is who's actually building. Next slide, please?

The other way to look at the data, again, at those 11,000 odd building permits -- and keep in mind, these are permits that were pulled. We actually have the data for certificates of occupancy issued and they skew more aggressively than what this slide shows. But this concentration shows very clearly that the yellow line is multi-family. As the household income in the area increases, there's a slight increase in the tendency to pull permits for an ADU, but what's very interesting, and it speaks to basically the lack of availability of financing, is that lower-income households are pulling building permits at a much lower pace per thousand eligible parcels over this last four-year period than wealthier communities.
It comes down to a really simple fact. It's hard for lower-income people to finance. Next slide, please?

So, as we look at who's been signing up to build ADUs with us, for single-family parcels, a dramatic skewing. Basically, the people who've been in their home for a longer period of time built up equity tend to be older. Bottom line is many of our customers -- almost 50 percent, in terms of home owners -- are five years either side of retirement, and they are trying to figure out how to supplement their income so they can stay in their home when their income has declined in retirement. That is the primary demographic that's building.

From multi-family perspective what we're seeing is that most of the construction, a significantly higher percentage of people coming to us to build have multiple parcels -- multiple units, rather. This also comes back to a simple reason. Homeowners, property owners who own just a duplex tend to be single-property owners, whereas property owners with multi-family parcels, four to five units, tend to own multiple parcels. They're in a better economic circumstance. Back to the same thing; they've been able to figure out how to finance. Next slide, please?

The corollary is who's unable to build, who's underrepresented. New to the property generally means high LTV. That's been a challenge; we've heard about that. I'm
going to give you some interesting numbers on the next slide.

And DTI. For us, that's been by far the largest impediment in terms of the ability to get homeowners finance. Next slide, please?

So this slide, I got this data late last night, but it's, I think, the most interesting piece of information here. On the left, this is the sample size. These are 139 homeowners who were declined financing in Los Angeles over the last 20 months. What's amazing is those 139 homeowners have a ton of equity; 46 percent LTV is the median. Even after adding the ADU, which is valuing the debt and no value on the ADU -- kind of silly -- it's still 69 percent. They have plenty of equity.

The mortgage balances aren't that high. These are pretty much all conforming mortgages, so this is, already, a liability on the books of the Agencies, and an astoundingly high FICO, 725. And where they fall apart is they don't have the income under the current rules, and I just understand those rules have changed. We'll look further into it.

So 62 percent of those 139 homeowners currently are over 43 percent DTI. As I said, in most cases, their incomes declined because they've retired, and their biggest stress is how do I continue to pay my mortgage and stay in
my home that I've already borrowed against when my income's declined.

If you added an ADU and took 75 percent of the rental income, 87 percent of those homeowners would qualify, and on a pro forma basis would drop below that scary 43 percent DTI. So the crazy part of this is that current policy, with respect to lending against the income earning asset is actually impairing the credit quality of the existing book. Next slide, please?

However, from our perspective at United Dwelling, there's a single overwhelming answer to increasing ADU production, and it's to fix the DTI problem and include that rental income. You've heard that from lots of people; from us you've seen some of the data behind it. Those are real people whose credit would actually improve if they had an ADU.

Thanks very much.

TOI ROBERTS: Thank you, Mr. Dietz. So now this brings us to midway through the session, and so we'll now have a ten-minute break, a free, ten-minute break starting right now. It's 2:28, so we will resume back at 2:38.

BREAK.

TOI ROBERTS: Hello, and welcome back. It's now 2:38, and so we'll begin hearing again from our speakers today. I want to now introduce our next speaker, Cristian Correa, at
Caliber Home Loans.

CRISTIAN CORREA: Hello, and thank you for the time.

I've had the pleasure of working with Faith Bautista and the L.A. Reach group here in California, Los Angeles, and we've been working and capturing a lot of data from the community. And what we've come to find out is that if the FHFA considers future rent on the proposed additional unit in their ability to repay calculation, we believe this could be one of the single most impactful improvements to access to credit policy that will improve housing affordability, closing the ratio and wealth gap among other benefits.

Zoning changes to allow adding a small additional home to an existing home, such as a duplex or accessory dwelling unit, is quickly proving to be one of the most effective tools nationally to improve equity, inclusion, and sustainable home ownership in all neighborhoods, and reduce climate change through gentle inflow density. This solution's low cost and rapid effectiveness to significant challenges facing low- to moderate-income communities is driving changes in state and local zoning policy around the nation.

A considerable barrier to implementing more inclusive zoning, however, is access to finance for homeowners who cannot finance a new unit from their existing household income. They need the added revenue from the future unit to
be factored into underwriting to be able to borrow enough to build a unit.

These families tend to be families of color, working families, and seniors on a fixed income who have a home, but not income to spare for additional debt service. To ensure that strategies to address the existing supply crisis, such as the small home trend sweeping the nation, allow for equal access to the benefits of home ownership, multigenerational living, and income diversity, we request that the federal agencies embrace the following.

National small home zoning reforms improve inclusion, equity, home ownership, and private-friendly infill. Over the last few years, many cities, counties, and states across the U.S. have rezoned low density residential areas to allow more small homes on the small family properties to address severe, related crises in three key areas, housing, climate change, and equity.

Zoning reforms to allow small homes -- duplex, triplex, accessory dwelling units, granny flats, and carriage houses -- have swiftly demonstrated that they can expand home ownership, allow private builders to deliver low-cost ownership and rental housing, and restore greater equity and inclusion in all types of neighborhoods. Small home zoning reform is sweeping the U.S., effectively delivering more affordable homes, quickly, without public subsidy. Small
home represents 40 percent of new homes delivered in most of
the largest U.S. cities.

Many of the families who would benefit the most from
national zoning reforms aren't able to borrow the money they
need for construction. Families with low or fixed incomes
often do not qualify for loans, unless they can take into
account the future income from the added unit. Seniors and
working families who are house rich and cash poor, and who
most need the income from sharing the unit to keep their
homes, and, therefore, are blocked from adding small homes
or ADUs.

U.C. Berkeley's Terner Center reported that financial
barriers are the number one reason homeowners are unable to
build ADUs in California. Federal banking rules must be
changed so that seniors, families of color, working
families, and others who need to add a small home to buy or
keep their housing are able to borrow to build.

There are two items that we request the federal
agencies act upon. One is, again, allow lenders to factor
in future rental income on the proposed unit, and, also,
update guidelines to allow multiple small homes on owner
occupied properties. If the FHFA can better understand the
value of small home additions and ADUs by comparing the
financial resilience of homes with an extra unit and those
without, over time and particularly during sustained

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financial crises such as the Great Recession and COVID-19.

Thank you very much for the time.

TOI ROBERTS: Thank you, Mr. Correa.

Our next speaker is Dominique Pryor-Anderson from Tennessee Affordable Housing Coalition. Ms. Pryor-Anderson?

DOMINIQUE PRYOR-ANDERSON: Sorry. My camera stuck there for just a moment. Thank you.

Good afternoon, and thank you all for this opportunity to speak. I am Dominique Pryor-Anderson, Executive Director of the Tennessee Affordable Housing Coalition. Greetings to you all from Tennessee, and the Coalition, where we connect, educate, and advocate for housing opportunities across the state of Tennessee.

You know, as a 501(c)(6) organization, the Coalition is able to lobby for housing policy changes using the voice of our body as our guiding force. So our strong and connected legislative committee is focused on having a key presence among our legislators to speak on changes and housing policies as it relates to funding and zoning and more. So we believe that creating innovative opportunities for both non-profit and for-profit developers to work together will increase funding opportunities from state, local, federal funding bodies, and increase our, you know, increasingly crucial housing stock.

Across the Coalition it has been the consensus that
without policy changes, not much else is going to change in affordable housing, and while the state of Tennessee is experiencing record shortages as the rest of the nation is, in both affordable, rental, and purchase homes, each region of our state has their own unique challenges. But I do believe that all regions would benefit from ADU.

In middle Tennessee, for example -- and we know that Nashville is exploding. I think everyone is moving to Nashville and I just want to say, we're closed, right? We can't have any new visitors -- I'm just kidding.

But our council member there, Burkley Allen, she's drafted some really great legislation, has been a real champion for the adoption of ADUs. She's also been the advocate for a non-LIHTC pilot program in Nashville, in middle Tennessee. This is important to allow both those for-profit and non-profit developers to build more affordable housing stock, including ADUs.

With that growth of Nashville and immediately surrounding areas, I think that ADUs would give people an opportunity to not have to live so far out, which helps with traffic and just gas, and money, and all these things placed together when you don't have something that's in the city. So you have an opportunity to live in the city when you couldn't previously in a standard rental. Those public/private partnerships that if we had the non-LIHTC
pilot that could happen allows these for-profit and
non-profit developers to come together with networks and
skills, CDFIs to find and subsidize more affordable housing,
and these ADU projects are a great opportunity to realize
those strategic partnerships.

East Tennessee, their affordable housing issue is
generally more aging housing stock. So if you have adult
children or adults that are able to build ADUs on their own
property, you're creating opportunities for senior parents
or family members to age in place, perhaps avoiding or
lowering the expense of rehousing a senior in a living
facility.

And there's the peace. Having a senior father, I
understand the peace of living in the back, right? So
that's less of a travel time that you may have to find out
what happened if he's living somewhere else -- he or she's
living somewhere else.

West Tennessee has a shortage of approximately 38,000
units of affordable housing. If you add in income
instability and increased numbers of people experiencing
homelessness, and then the lack of affordability, that
really grows the issue.

Memphis has been home -- Memphis specifically in west
Tennessee -- has been home to ADUs, and they've been called
different things as we've all referenced on here. I,
personally, when I moved to Memphis after college, lived in
my sister-in-law's ADU. That was absolutely fantastic,
because it was her guest house and we were able to live
there -- my now-husband and I -- were able to live there,
and it was considerably cheaper. It allowed us to get our
feet under us and really grow.

So ADUs have a lot of opportunity, and now, as my
mother-in-law has dementia, she's able to now go there and
live in the back of my sister's house. She still has a bit
of her own independence with a place to live.

So, you know, without these creative solutions to
housing stock, Nashville, Tennessee, alone is projected to
have an increased shortage in affordable rentals from 18,000
to 21,000 by 2025. So we pull this together that we're
allowing people to live comfortably and grow in the spaces
where they are, but ADUs are giving us a whole new
opportunity to create and innovate and realize this
affordable housing situation.

Thank you, all.

TOI ROBERTS: Thank you, Ms. Pryor-Anderson.

Our next speaker is Ms. Rebecca Froass from the
National Association of Home Builders.

REBECCA FROASS: Thank you, Toi. Can you hear me?

TOI ROBERTS: Yes.

REBECCA FROASS: Okay. Great. My name is Becky
Froass. I'm in the Housing Finance Department of the National Association of Home Builders, and I'm pleased to be here today. NAHB appreciates the opportunity to address this group of housing industry participants. So, thank you.

It's clear from the interest in today's listening session, and the previous comments, that there's a lot of thought going into the potential of ADUs to address today's top housing concerns of housing supply and housing affordability. NAHB is encouraged that the industry, FHFA, and Fannie Mae and Freddie Mac are thinking creatively about how to address these concerns.

There is no one solution that can adequately solve the affordability crisis, or eliminate the housing supply gap that exists. Solutions must be innovative, and, to some degree, tailored to meet the needs of unique communities. It's safe to say that currently most cities and towns have zoning laws, and a myriad of other regulatory restrictions, such as governing the density of housing and requiring large lot sizes, prohibiting detached ADUs, and requiring special permits to construct an ADU, all creating barriers to building these housing units.

However, a growing number of locations in which affordable housing and available building sites are limited, and, or, prohibitively expensive, are loosening or eliminating these constraints as local officials seek
solutions to housing affordability and housing supply concerns in their jurisdictions. Some jurisdictions -- to name a few, Portland, Seattle, Los Angeles, and certainly others -- have made considerable progress in reducing or eliminating barriers to creating ADUs.

And according to a study by Freddie Mac of MLS data, nationwide ADU rentals increased from less than 1,000 units in the year 2000 to 8,000 units in 2019. However, it remains unclear whether ADUs can move enough into the mainstream to have a perceptible positive impact on housing supply, and provide significant affordable housing opportunities.

In your notice of the listening session, FHFA raised a good question that we'll take back to our home builders. FHFA notes that ADUs are often added to existing homes, but they could also be built as part of a new development. And you ask to what extent is their interest in including ADUs with new homes among the builder/developer community?

Well according to NAHB's chief economist, he believes right now interest in adding ADUs to new construction is relatively small. It remains a remodeling trend for existing homes. However, we'll pursue this question with our members.

The most recent data NAHB has on ADUs was collected from a survey of our remodeler members in the first quarter.
of 2019. Those results showed that in the previous 12 months, which would have been 2018, 20 percent of remodelers undertook projects that created an ADU by converting an existing space, and 18 percent created an ADU by building a new addition.

Also, as mentioned by Ms. Currid, we noted that there's not a consistent definition of an ADU. A homeowner may create what he or she considers an ADU without technically creating a new housing unit. For example, by simply finishing or refinishing a basement or a second floor area to rent out. In fact, in the 2019 survey, most remodelers who reported undertaking projects to create an ADU in the previous 12 months did not rely on a government permit's designation to classify a unit or structure as an ADU.

TOI ROBERTS: One minute remaining.

REBECCA FROASS: What? One minute?

TOI ROBERTS: Uh-huh.

REBECCA FROASS: Oh, my goodness. All right.

Well, the evidence cited most often by remodelers that a project was an ADU was that the renovated area had its own kitchen facilities. The next most common feature remodelers cited in order to call a unit an ADU was the renovated area had its own entrance. And third, if the customer referred to it as an ADU, the remodeler called it an ADU.

So anyway, Fannie Mae and Freddie Mac have a key role...
in supporting the ADU market. As we heard from Mike Dawson and Mike Hernandez, those Enterprises are looking at ways to provide this support and we're pleased that you're looking at changes to financing programs, because we think that financing is a critical aspect.

We look forward to working with FHFA and the Enterprises as you look for opportunities to support the use and development of ADUs and including enhanced financing options. Thank you.

TOI ROBERTS: Thank you, Ms. Froass.

Our next speaker is Mr. Robert Long from Professional Valuation Corporation.

ROBERT LONG: Turning me on. There we go. You get me?

TOI ROBERTS: Yep.

ROBERT LONG: Great. Okay. I'm a practicing appraiser in Colorado for 25 years. I've also served on some local zoning boards and have some expertise in lender and appraisal policy. I support the expansion of ADUs to address affordable housing units, and I just want to share from my insights from the field, particularly to, you know, the the Mikes of Fannie Mae and Freddie Mac.

Skip Schenker and Grace Currid both touched on some important lender issues that are going to directly overlap with my comments -- and I don't disagree -- but this will help a little bit from the appraiser's perspective.
My observation is that many of the market participants, including lenders, loan officers and underwriters, appraisal management companies, realtors, and some of my peer appraisers are not well versed in the current Fannie and Freddie policies regulating ADUs, or the lending on ADUs, and that their needs to be probably more robust policies if it's FHFA's intent to support the expanded use of ADUs. And I think Grace said that even if we didn't, we want some more clarifications.

In many cases when the loan appraisal request reaches the appraisers desk, it's not clear whether the property is simply a single-family home, possibly with an unapproved or illegal ADU, and a home with an actual ADU that meets Fannie and Freddie guidelines are actually a two- to four-family property that fits into a different loan program.

Many times the lender simply requests a 1004, what we call it, a single-family appraisal, and because of the appraisal management company model, I actually don't have direct communication with the appraisers, and the staff from the appraisal management company generally are not versed in regulations whatsoever, or appraisal policy.

So we have this third party between us that we're never sure what we get. And this is a little bit of a gripe from many appraisers, but I'll express it here, the current appraisal management company model tends to exacerbate the
situation. The AMC model primarily utilizes the lowest price and fastest bidder to award the assignment regardless of complexity, such as an ADU, that will generally require more analysis.

The presence of an ADU is almost never disclosed prior to awarding the bid. So under this model there is limited incentive for the appraiser to analyze, you know, the compliance and the value of the ADU. Many appraisers, unfortunately, pass on the assignment, reject it, or claim sick.

You know, as a more senior appraiser in my community I receive numerous orders every month like this, because it got passed, it had an issue and -- for a variety of issues, but one of them is that an ADU is a two-by, two- to four-

cetera.

For those that aren't familiar, one of the first tests -- here's one of the first things we have to do is make a determination of zoning compliance. And believe me, appraisers don't want to be in the position of the zoning police that killed the deal because the zoning or the occupancy use doesn't comply.

So, again, most appraisers just try to avoid these instead of dealing with it directly. So I guess more robust policy regulations around that, and training, so that the lenders -- I have many friends that are lenders, and they
don't understand the policies really. So more training so
they understand exactly what they're looking for a loan on.
Is it going to be a single-family with an ADU? Is it really
a two- to four-, and what appraisal product are they going
to need?

Lastly, I'm fascinated by the -- 'cause I'm also a
commercial appraiser -- I'm fascinated by the concept that
the income from an ADU would be used to qualify. I think
that's a great idea. Once again, though, as appraisers,
sometimes we end up being the occupancy police. They want
us to prove is this a tenant? Is this an owner occupied
unit and all that?

That would all be better dealt with, probably, by the
lender, and done. Appraisers, I think, as a whole, support
a whole variety of robust uses of real estate. We just, in
the end, don't want to be the ones that kill the deal,
because, basically, we're just explaining policy that Fannie
and Freddie wrote, and we end up being the bad guys.

So I think that wraps up my input, and I think what the
other lenders have said really dovetails with that. Thank
you very much.

TOI ROBERTS: Thank you, Mr. Long.

Our next speaker is Ms. Catherine Duarte from the City
of Colorado Springs. Give us a moment to upload your
slides.
CATHERINE DUARTE: Hello. Can everyone hear me?

TOI ROBERTS: Yes.

CATHERINE DUARTE: Great. Well, first of all, thank you. I just want to thank the FHFA for the opportunity to share what our city's going through with regards to ADUs. My name is Catherine Duarte, and I'm a Senior Analyst with the Community Development Division at the City of Colorado Springs, and we manage our city's housing and homeless entitlement funds from HUD, and we accomplish our goals through private nonprofits and developers. And the perspective I'd like to bring today is just the perspective from the entitlement community, from entitlement communities and how we have to navigate the systems, different federal systems, to help meet our affordable housing goals. Next slide, please?

So I'd like to start off by giving a brief overview of our local legal framework just to show that a lot of communities are already doing this work on the local level to make sure that ADUs are an allowable use by rights. In accordance with our new comprehensive plan that was passed in 2019, which envisions more flexible land use policies to allow more density and a diversity of housing types, our city council approved new ADU allowances last July. They made attached ADUs, or what we call accessory family suites, permitted by rights across all single-family zones, or R1.
Zones, and created an ADU overlay zone for new planned communities at the edges of our city.

The council did stop short of making detached ADUs a use by right across all residential zones, which a lot of advocates would have liked to see, but those remain allowable uses in more dense residential zones. And I don't really need to spend any time discussing our housing shortage; it's bad. It follows national trends, and it's untenable, all those things. So we've done multiple deep dives into our housing profile and we know that ADUs can make a meaningful contribution to addressing housing availability and affordability.

If you take a look at the graphic on the lower left-hand side, we looked at our housing types in Colorado Springs -- and the link there is homecos2020, that's our local affordable housing plan. We looked at our housing types, and you'll see that non single-family, single-unit homes make up single digits, around seven percent of our housing stock. Our single-family homes make up more than half, 62 percent of all housing units in Colorado Springs. And when land is scarce and the most expensive piece of the building equation, this 62 percent here is an incredible resource for creative housing solutions.

We also know that our community is ready for ADUs. We've done a lot of outreach, including owners of

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single-family homes. During the drafting of the ordinance, our planning staff ran a public process, a very robust public process, and we heard from hundreds of residents. Of those who submitted comments to staff and council, 78 percent were supporting of broader ADU allowances.

There is a lot of work out there talking about the designs and density aspects to ADUs, their minimal impact on the neighborhood form, the built environment, is really good news for house hunters. In a local survey our division conducted in 2019 to prepare our affordable housing plan, we asked residents how they search for homes, and after Google, the most common way people report looking is to physically visit neighborhoods they like and look in person.

So this is a really good argument when people talk about keeping neighborhood character. People looking for homes really appreciate that character and adding gentle density really helps maintain a kind of neighborhoody feel that people like to live in. Next slide, please?

So with all of the work that went into the ADU ordinance revision and the public feedback generated around housing and displacement in other local plans, the next steps just seem really obvious to us. In our mission to preserve and build affordable housing in the city, we must include current homeowners as key stakeholders in creating new affordable housing stock. The benefits of ADUs are very
well documented, and their prohibitive cost is also well
documented.

Last year we began, in earnest, to research ways to
fund a program that would subsidize ADUs in exchange for
long-term affordability. We had a few things -- oh, sorry.
Next slide, please.

We had a few things working against us, namely funding.
Our funding toolbox is largely made up of Federal sources.
LIHTC private activity bonds, or PABs, and utility
incentives are really designed for multi-family building.
They reward a higher number of units (indiscernible)**

So we had to look at our HUD grants -- Okay. So where
were we? So we had to look at our HUD grants. CBD and ESG
were quickly discarded, disqualified, because we have broad
regulatory exclusions. So this leaves HOME, and I won't go
into, you know, the HUD's HOME program other than it, you
know, covers new housing construction, rental assistance,
community housing development organization, operational
costs. So it feels like a good program that would kickstart
new construction and sort of small scale projects, but over
the last year we learned that the details in HOME's regs
severely complicated our efforts at designing a program that
is both compliant in the eyes of HUD and feasible on the
local level.
The CHDO, or Community Housing Development Organization program, is geared towards developers and brings very burdensome predevelopment construction and loan requirements that are just not a good fit for single-family homeowners, or just individuals. And HOME has a promising precedent called the ECHO program, the Elder Cottage Housing Opportunity, but that's targeted at a very specific demographic -- older residents -- not designed to be a permanent unit -- they're modular. And the ADU form isn't compatible with our -- or, sorry, the ECHO form -- the modular units are just incompatible with our local ADU building standards. Single-unit owners are exempt from the Fair Housing Act, but it would be helpful to have some guidance of best practices for creating a transparent and equitable program.

And, lastly, we did start working with a Denver-based consultant for policy research to help us engage with HUD field and headquarters staff to find the right niche, to see if HOME is the right program, or if we should look elsewhere, and that work is ongoing. Next slide, please?

TOI ROBERTS: Thank you, Ms. Duarte. Our next speaker -- I apologize.

Our next speaker is Mr. Kyle Smith, and can everyone else mute your phones? Thank you. Mr. Kyle Smith from the Metropolitan Mayors Caucus.
CALEB SMITH: Good afternoon. Can you hear me?

TOI ROBERTS: Yes.

CALEB SMITH: Perfect. Good afternoon. My name is Caleb Smith. I am an analyst for the County of San Mateo, California. I'm grateful for the opportunity to speak with you all today.

The County of San Mateo is the county that covers most of the area between San Francisco and Palo Alto in the San Francisco Bay area, and our county is facing a particularly severe affordable housing crisis. And there's no silver bullet to address this challenge, which is why the county's taking a variety to strategies to address our affordable housing challenges. But we do know that accessory dwelling units are an important piece of the toolkit.

Indeed, in last year, and, I believe, the year before -- and, most likely, again this year -- accessory dwelling units represented nearly 20 percent of all new housing units permitted in San Mateo County. My understanding is that the proportion of new housing units that come from Accessory Dwelling Units is even higher in certain other California jurisdictions.

Now the County of San Mateo has taken a number of steps to try to encourage more accessory dwelling unit production. Our partners have developed pre-approved ADU plans to make the planning process easier. We are offering free project
management assistance to some homeowners. We are having a robust public education effort. But although local government can do a lot to try to help homeowners take advantage of California's newly permissive ADU rules, local government can't finance the ADU revolution, which is why we look to our partners in the private sector to provide the mortgage financing and other kinds of loans to make that possible.

I think that we're providing a little bit of background. In San Mateo County we do have a very large population of retirees who have limited incomes but a great deal of home equity. However, our understanding is that many of them aren't able to access existing loan options, primarily because ADU related income that isn't already in existence can't be properly factored for when writing loans. So, once again, similar to a point a lot of other speakers have made.

And I know we've talked a fair bit about ADUs as a form of affordable housing. In San Mateo County, based off of a recent rent study, 90 percent of ADUs are being rented at rates that are affordable to middle- or lower-income households in our county, without any kind of deed restriction, or without any kind of ongoing government subsidy -- which is what these really are, a powerful source of unsubsidized affordable housing in our community.
So I don't want you to read really too much into some of the other points that folks have made; however, I think it is worth pointing out that where we have seen the interesting experimentation done in the ADU loans, on the part of credit unions and such, has really been sort of when people have been able to hold onto portfolio loans. So it really is the actors and secondary markets, which seems to be a major barrier to really scaling this up.

And I also want to take a quick moment to address junior accessory dwelling units, which, in California, are small accessory dwelling units, typically that are, indeed, within an existing house, either by carving out a master bedroom, or, perhaps, something like a garage or a basement. These are sometimes less expensive to build, sometimes under $100,000, which, in our county, is not as much as it would cost to build a detached ADU.

However, the fact that you're taking advantage of the existing space, well, very good from the perspective of urban design and in terms of keeping down costs. There sometimes isn't as much in the way of additional home value, which makes these units particularly difficult to finance, despite the fact that they're an especially good fit for populations such as older adults who want to age in place, or families with a disabled family member they're looking after who want to keep that in mind.
And we also see that accessory dwelling units are a good fit for a wide variety of families. We've heard from a number of other speakers, and a group that we haven't, perhaps, heard quite as much about is families with developmentally disabled children. We found in our county, accessory dwelling units are one good option for them, and that's something that we're certainly trying to help encourage more of.

So I think that the bottom line, a lot of the points that other speakers have made we would fully agree with. The ability to take into account future income is by far the most important from our perspective; however, other things such as allowing for more than one ADU on a single property, which is what's allowed under California law right now, allowing ADUs at multi-family properties. These can also be very powerful ways to increase the supply of affordable homes here in California, and, I have no doubt, in other communities across the country, which are following California's lead.

And then also, one quick note from a local government perspective, is that the rules around separate addresses for ADU can be a particular wrinkle. I do know of local governments which sometimes require that new ADUs have a separate address. However, that varies based on city, so, if the rules for underwriting can be tweaked so that that's
no longer something that would prevent a loan, then that would be helpful, because your ability to qualify for a loan should depend on the strength of the underlying loan, not based on the quirks of the local planning department.

So those are just a few of the key points. I think that it's great there's so many people who are really covering a lot of the same points I would make, and this is why local government has been so grateful for the opportunity to participate in organizations like the Casita Coalition, which is trying to advance all this ADU work on a statewide level, and why I, with the county, have already been working with a number of the other people on this call. Because ADU finance is really a challenge that's too big for any single company, or any single local government, which is why we're really grateful for this listening session today, because this is a place where the Federal government really has a profound impact in providing a better future for households across our country. Thank you.

TOI ROBERTS: Thank you, Mr. Smith. I just want to state for the record that that was Mr. Caleb Smith that we just heard from, from the County of San Mateo. Thank you, Mr. Smith.

Our next speaker is Casey Kleinhenz from the Community Development Corporation of Bentonville/Bella Vista.

CASEY KLEINHENZ: Thanks for having me. It's the
Community Development Corporation Bentonville/Bella Vista; it's in northwest Arkansas. Our organization recently completed the Briartown Cottage project, and this is a demonstration project where we constructed a court of four cottages designed in the style of an ADU. We used the project to drive conversations with local planning departments, lenders, and homeowners interested in building ADUs.

After the marketing and outreach initiative, the cottages will rent under 60 percent AMI rent income restrictions. You can download our cottage plans at briartowncottages.com. They're there, open source, no charge. Check 'em out. briartowncottages.com.

Over the course of the project, we engaged local residents constructing their own ADUs in a single-family context. Virtually all of the homeowner developers are using cash or home equity loan as the construction financing for their ADU.

You know, from this anecdote, and comments of colleagues, I'd recommend FHFA take the lead on a loan product that expands ADU access to homeowners with a lower level of equity. Key features would be a product that's high loan to value, and the ability to include your rental income from a future ADU in the underwriting calculation.

I've appreciated everyone's expert comments. Thanks
for your time.

TOI ROBERTS: Thank you, Mr. Kleinhenz.

I want to circle back now to our speaker Mr. Kyle Smith from the Metropolitan Mayors Caucus. Can you hear me now, Mr. Smith?

KYLE SMITH: I am here, and, first of all, to the agency and all in the listening session, I apologize. I mistook that our speaking slot was a little bit later in the day, so thank you for your patience with me.

My name is Kyle Smith; I'm with the Metropolitan Mayors Caucus out of Chicago. We are a 275 member municipal organization representing the mayors of the Chicago region, and we work between communities in a number of different issue areas, including on housing and aging issues.

One of the things we have learned working together over the years is that at the local policy level there is no one size fits all, including on the subject of ADUs, and what works in one community may not work in another, but together, you know, we work to identify barriers in housing and other areas.

We have an active housing and community development program in our region, which is looking to identify issues in localizing supply and affordability and solutions to those issues. What we have identified really varies from community to community, but our region is aging. It's aging

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relatively quickly, and our housing supply, much of which is
single-family homes, was initially developed for those in a
commuter style kind of a household, and not necessarily
intergenerational in nature. For example, we have many
homes that do not even have a bathroom on their first floor.

In some member municipalities, they have started to
hear from residents that they would be interested in
converting part of their property, or adding on a different
part of their property, an accessory dwelling unit to
either, one, allow the existing homeowner to age in place
and be able to rent out that other unit, or rent it for
free, effectively, to a family member -- or the other way
around. Many folks have aging parents who could even
provide child care or other services within the family.

So in 2018 we worked with our local AARP affiliate,
AARP Illinois, and the Chicago Metropolitan Agency for
Planning to host educational sessions on accessory dwelling
units for municipal officials, planning commissioners, as
well as municipal staff. Some communities in our region are
very interested in this strategy. Others are learning about
it but somewhat concerned of the local politics surrounding
it. Nonetheless, we've learned quite a bit about the local
barriers that communities face.

And there's been quite a bit on financing, so I don't
think that I'm going to touch on that as much. I want to
talk about a couple of other things that we think might be unique to our region.

One is property taxes. So the states and localities that have had much success with accessory dwelling units tend to be low property tax states. The Chicago region is in Illinois, which is a high property tax state, and property taxes are a particular burden on senior households, including low and moderate senior households that are free and clear on their mortgage.

So the question arose, and I don’t think that there's a clear answer to, at this point, the property tax burden that is imposed by an ADU. So that is one significant issue that I think would be fair in other high tax states like New York, Pennsylvania, Wisconsin.

The other issue that we learned with ADUs that I think is also very important is that to others no one size fits all for land use context. As it's sometimes discussed in planning literature, the ADU is a fully detached home on the bearer of the property, which may make sense in those communities that have alleys or lot configurations where the utility costs for hookups are relatively minor. But other newer growth communities do not necessarily have the fire access or lot configuration to be able to add a detached unit without it being an immense cost to the homeowner, you know, one hundred, two hundred grand, which for all but the
most equity rich homeowners would be a big barrier for them. And in those cases, those same dwelling units have garages or walkout easements where housing units can be added much more cheaply. And, you know, among our members, we just find a wide divergence in the kinds of ADUs that would be both cost effective, in terms of the infrastructure costs, as well as supported within local leadership for their urban form, etcetera.

So we very much hope that this variation is considered, because it is really important in the suburban and exurban context, in particular, to consider all types of ADUs, particularly in the intergenerational context. Thank you.

TOI ROBERTS: All right. Thank you, Mr. Smith.

Our next speaker is Ms. Hazel Borys from PlaceMakers LLC.

HAZEL BORYS: Thank you so much. I appreciate that. Any chance I could get you say view full screen? Would that work for you? Great. Actually, that didn't happen, so that's okay.

We've heard so much today about zoning as being a large impediment to creating the sorts of ADUs that local governments are looking to incentivize in a time when we really want to be able to incentivize formats that will help rebuild equity and our local -- sorry, can you hear me okay?

Was that an interruption to talk about that?
TOI ROBERTS: We can hear you.

HAZEL BORYS: Okay. Perfect. Thank you.

So dealing with the topic of zoning -- next slide, please? People often think of zoning as something that is expensive and time consuming, and, in many cases, this is true, but during the pandemic we created something called the pandemic toolkit to look at the top 22 actions that local governments should be taking in order to -- if you could say view full screen it should let you just -- okay. Maybe not. Page down on each one.

These 22 actions that the governments can take today without that full rezoning, just looking at text edits locally in order to make a difference. And this is an open source document on placemakers.com/pandemic-toolkit that is currently available in eight languages. Next slide, please?

So I'd like to just look at 3 of those 22 actions that apply to our topic today, and the first one is to allow in-home occupations, because many local governments -- like we've already heard -- do have zoning and subdivision regulations on the books today that do allow ADUs; however, they frequently aren't utilized, certainly not to their greatest extent, because of these challenges. So many local governments have some type of home business permitted, but often with limitations on the number of employees, along with high parking requirements and restricted signage.
So, if instead we allowed in-home occupation to enable a work from home without permitting and then reassessing area restrictions and existing regulations to accommodate the social defensing requirement as we recover from the pandemic is an important topic. Next slide, please?

The next action is actually, you know, to allow accessory dwelling units in the zoning code, which has been so extensively discussed today, and while we have that in so many communities across the United States today, the restrictions are frequently made unusable because of suburban setbacks, high parking requirements, and ownership restrictions. So if we want the economy to recover more resiliently, after the pandemic we need every possible means to increase our household income, and this ADU opportunity can only really fully be realized if we reduce parking requirements, we reconsider the minimum size restrictions that many ADU zoning codes currently have in place, if we decrease the setbacks to allow zero lot line or two-foot setbacks instead of more suburban setbacks that make the ADU zoning that's currently adopted today not feasible, and if we look at ownership occupation requirements, which we've heard about extensively already today. Next slide, please.

In addition to ADUs, I think we should also be talking ACUs, or Accessory Commercial Units that we can make viable once again with a code amendment to zoning, so the accessory
commercial units that allow homeowners to have that additional income, but this time the home is in the back of this picture and the commercial in the front, so, once again, we could change that by revising regulations to permit mixed use, reducing front setbacks, and requiring sidewalk minimum widths where possible. Next slide, please?

All of these interventions are just text edits. We've heard so much today from places like Tennessee, who's like one of the great zoning reformers of all the states, and those sorts of larger scale zoning rewrites that qualify as form-based codes in Tennessee are in places like Nashville, and Chattanooga, and Memphis, and they have -- Nashville's the first city in the U.S. that's actually had over a billion dollars of new construction under a form-based code that allowed accessory dwelling units, but it didn't start that way.

All it started with was the then Planning Director, Rick Bernhardt, changed three sentences within an existing zoning regulation, which is for the walkable streets, making the buildings have build-to ranges instead of setbacks, requiring a minimum percentage blazing on the first floor, and requiring parking to be on the street or behind a building. So it doesn't have to have a holistic zoning rewrite like codestudy.org showcases; these are holistic zoning rewrites.
But, instead, just a simple text amendment to get us to where we're needing to go, and so many cities think of zoning as this extensive, long-term initiative, and to do it holistically in a way that has the sort of value capture that form-based codes do have. It certainly does take more time and dollars, but these faster initiatives are super important to today's conversation -- next slide, please -- which are purely just zoning text amendments.

On codestudy.org if you look at numbers of form-based codes per state, you'll see these regional concentrations. So the point of this slide is just when units of local government start understanding the value capture of changing the rules like we're considering today, then those sorts of regional support groups and competition start --

TOI ROBERTS: One minute remaining.

HAZEL BORYS: Thank you. Next slide, please?

So this is looking at form-based code adoptions over time, plus ones that are currently in progress, so, clearly, it would, perhaps, reached a tipping point -- next slide, please -- even though that last slide really is looking at ones that are in progress, which will certainly not all be adopted this year.

Codescore -- which is a different website -- dot org looks at the payback to local governments and private individuals who are making these changes. These are the
paybacks to people. Next slide, please?

And next the paybacks to reducing our greenhouse gas emissions -- next slide, please -- and protecting our waterways. And then the payback to our value capture on the private side and on the public side. You can look at all these in greater detail on curbscore.org, along with 135 case studies to back them up. Next slide, please?

And I very much welcome additional form-based code submissions and really appreciate the convening of this important conversation today and everyone's collective wisdom that will move us forward. Thank you.

TOI ROBERTS: Thank you, Ms. Borys.

Our next speaker is Marcel Negret from the Regional Plan Association.

MARCEL NEGRET: Hello. Can you hear me?

TOI ROBERTS: Yes.

MARCEL NEGRET: Thank you for giving me an opportunity to provide comments on this important topic. My name is Marcel Negret; I'm a Senior Planner with the Regional Plan Association. We are a non-for-profit research planning and advocacy organization that has served the New York metropolitan region for nearly a century.

More than half of homes in the United States are currently selling above list price. The Case-Schiller U.S. National Home Price Index has been steadily increasing over
the past decade and has been growing even more rapidly throughout the pandemic. The housing market of the Tri-State Region has experienced very similar patterns. Throughout the previous decade and leading up to the pandemic suburbs were building less housing, especially in southwestern Connecticut, Long Island, and the Hudson Valley. These places were also accommodating less of the metro areas' overall population, economic, and housing growth.

By the end of 2020, housing sales, or a proxy for demand, in these areas accelerated sharply where prices were higher and inventory was down year on year. Long Island and southwestern Connecticut in particular saw the greatest correlation in the region between the decreasing inventory, increasingly sales, and a growing median list price.

With less new construction, and now a decreasing supply of available housing to purchase, these suburban areas are less well equipped to accommodate current increases in demand. This in turn is exacerbating regional housing pressures and hiding the housing affordability crisis with disparate effects.

The Tri-State Region is one of the most segregated parts of the United States and has some of the highest levels of income inequality. This is the result of cumulative policy positions over multiple generations that
made segregation and allowed market forces to produce
segregated city neighborhoods and suburbs. Federal policies
pre- and post-World War II influenced financial systems, and
local approaches to land use control show us how segregation
proliferated, and later normalized, within our region. We
must learn from these past choices and do better.
Government action can help ensure that neighborhoods are
healthier, socially integrated, and more prosperous, as well
as affordable.

A key to achieving all of this is to incentivize a
greater range of housing choices. Last year RPA released an
announcement showing that New York, New Jersey, and
Connecticut policy makers could help create hundreds of
thousands of new homes by providing a regulatory framework
for adding more units to some of their regions nearly four
million large single-family houses.

A report entitled Be my Neighbor on past housing
solutions for accessory dwelling units and conversions
estimated that approximately half a million new homes --
half a million new homes -- including one hundred thousand
in New York City alone, can be created at a low cost if
state and city governments allow ADUs and develop the
appropriate balance of incentives for large single- and
two-family houses to include additional units. If done
properly, half of these units would be near to transit
stations with easy access to jobs and business centers.

More recently, we released a follow-up report where found that municipalities in Fairfield County, Connecticut, could help create 40,000 new homes by 2040, and through the use of these same housing typologies. In this report we highlighted the importance of incentivizing ADUs and conversions through New York, New Jersey, and Connecticut state legislation. We emphasize the importance of each state's established policy to specify the rights of owners, provide guidelines for the creation of new housing units, and give financial and technical assistance to the municipalities.

Perhaps most importantly to today's listening session, we also highlighted the need for developing technical assistance, financial, and informational programs. With support from the federal government, the state's regional and local governments can create programs that provide assistance for constructing ADUs and making conversions by offering guidance, simplifying technical language, and streamlining approvals. These entities should also prioritize statewide financing programs, especially to assist senior citizens and low- to moderate-income households.

Together with our coalition partners, these recommendations have helped shape policy within the region.
Earlier this summer, in Connecticut, Governor Ned Lamont legalized ADUs statewide. Last year New York state introduced a bill that will go beyond legalizing ADUs statewide and would offer technical and financial assistance. This is called the New York State Accessory Homes Enabling Act, and we expect that it will be fully approved later this year.

The recent passage of legislation in Connecticut and the introduction of this bill in New York state demonstrates the growing recognition of the need to incentivize our housing choices in the region and the role that policy must play in facilitating social and economic benefits. While these are certainly positive steps, there is a lot more that needs to be done, particularly when defining the technical assistance, financing, and information programs that will determine the degree to which these policies meet their stated goals.

The recently announced federal agency policies are more than welcome, in particular those that will create new funding mechanisms and leverage federal funding to spur state and local actions. These are profoundly in line with RPA's recommendations. The federal government must ensure that expansions made through financing through Freddie Mac, as well as updates to Fannie Mae's and the Federal Housing Administration's existing policies are set up to support the
creation of ADUs and conversions, and in coordination with state and local governments. Equally important will be how the government agencies leverage federal funding to spur state and local action and promote comprehensive planning. HUD's flood grant funding and the support provided by the Office of Community Planning and Development will be key to addressing many of these issues.

Together these can support the planning needed to build new, and rebuild existing infrastructure that will help ensure that entire neighborhoods, including basements and accessory dwelling units, are safer, healthier, and more prosperous.

I will post in the chat section a couple of references on the reports that I mentioned in my testimony. Thank you.

TOI ROBERTS: Thank you, Mr. Negret.

Our next speaker, we're going to skip to Nichol Dehmer from the YardHomes MN SBC.

NICHOL DEHMER. Hi, I'm Nicol. I'm with YardHomes Minnesota. We are a accessory dwelling unit company located in St. Paul, Minnesota. Many people have had their eyes on the Minneapolis/St. Paul marketplace as Minneapolis up-zoned their entire single-family code in the last 24 months. Even though we've seen an up-zoning to the 2040 plan, we haven't seen that articulated out in many ordinance changes quite yet. We're optimistic that those changes will come;
however, I wanted to share with you some of what we see happening in the ADU space.

YardHomes has, ourselves, developed a partnership with a local bank that will do accessory dwelling unit lending for individuals, and they're willing to count the rental income as income from the party, and well as impute a value for the ADU. This partnership was brought about as a result of working with them on the appraisal standards, which actually really only require an appraisal for property values that are greater than four hundred thousand.

In some of these locations you might have ADUs that exceed that amount, but in Minnesota our typical ADU price is below the $200,000 mark. So the bank itself has the ability to define what is considered an appraisal in those situations.

Typically that is then referred to as an evaluation. The bank that we work then defines what the evaluation process looks like. Part of that evaluation process was us bringing them to our manufacturers, because we do full volumetric manufacturing of ADUs, as well as set penalized ADUs. So bringing them to our factory so that they could see the inputs that were put into our ADUs, bringing them to our showrooms so that they could actually see ADUs that have been built and are on display, and working with them on creating a documentation to support the value of ADUs for
their regulators.

Now this is a great program, and we're very appreciative of this local bank that we work with; however, they are only able to take so much capacity, and these are loans that they would have to retain on their books for the long term. There's no secondary market for these types of loans.

What I would like to see the Agencies do is work with the community banks on creating that secondary market. If there's a concern over the rental income of the ADUs or the values, allowing community banks to originate these loans and hold them on their books for a couple of years while there's payment seasonality might be a way for the Agencies to get comfortable with this style of lending. So that's one recommendation I would make.

The second recommendation is that I do agree with the comments that for accessory dwelling units making optional the separate mailing address, and making optional the utilities, because I think as we make those the requirements of the programs we're going to see that cities are going to run into ordinance issues with these kinds of requirements. So I would make those optional.

And then, thirdly, I want to share a program that we have created at YardHomes where we have 38 units that are in the pipeline to be distributed under our Y-HELP program,
which is a program where we actually fund the ADU to an individual or a nonprofit that would like an ADU in their backyard, as long as they agree that they would house somebody that is on a voucher, either a Veterans voucher or a Section 8 voucher, or a youth homeless voucher. Over a period of 10 years, at the end of 10 years, we'll deed that structure over to the land owner.

So we have received a huge response for that program, and many of those are just individual people thinking ahead in ways in which they could add ADUs to their property, for themselves for multigenerational living in the future, for additional rental income, or simply for themselves if they want to age in place. So we are constantly seeking additional partners that want to export our program to other areas of the country. So if you have any interest, please, just ping me in the chat, and I'd be happy to chat with you about that program as well?

Thanks for all the advice on the call today. This has been great.

TOI ROBERTS: Thank you, Ms. Dehmer.

Our next speaker is Mr. Robinson Markus from Evanston Development Cooperative.

ROBINSON MARKUS: Hello there. Can you hear me okay?

TOI ROBERTS: Yeah.

ROBINSON MARKUS: Great. Hi there, everyone. Good to
see a few familiar faces on here. My name is Robby Markus. I'm a worker, owner, and Vice President of the Evanston Development Coop, or EDC, and, similar to a lot of folks here, I'm speaking to respectively encourage the FHFA, along with the GSEs, to identify and implement, essentially, a secondary market, financing solutions, which convince lenders to really get involved and dive into accessory dwelling units, especially finding ways -- as I think the individual at United Dwellings said -- to make this work for moderate-income and middle-income homeowners.

So a little bit of context, our worker or employee-owned cooperative is based in Evanston, Illinois, which is an inner-ring suburb just north of Chicago. Our city is landlocked and very built up with a high cost of land. And so, as a result, to address housing affordability, especially in our existing single-family zoning districts where we can't otherwise build anything right now, we design and build energy efficient accessory dwelling units for Evanston homeowners and residents.

Similar to Nichol at YardHomes, we also utilize structurally inflated panels. We build all electric units from a climate action perspective. We currently have ten activate ADU projects under contract at various stages of design and construction; nine are in Evanston, one is in Chicago.
The price point for these units really depends on the type of accessory dwelling unit, as well as the needs of the particular client. You know, we have an internal basement ADU under $150,000. We have a commercial kitchen that will be certified by the Illinois Department of Health that is closer to $300,000.

In approximately two and a half years we have received over 175 inquiries in Evanston, which is a town of 75,000 people-ish, for an Accessory Dwelling Unit. Perhaps given that our rental market isn't as expensive as that on the west coast, I think our inquiries skew more towards being utilized for homeowners or family members, aging parents downsizing into the backyard, relatives with disabilities, and home businesses are all common inquiries that we get.

We have a strong working relationship with our municipal government, whose housing director encouraged us to speak this afternoon on behalf of our shared experiences in collaboration over the past few years. So in tandem with our city we successfully implemented a progressive and flexible ADU code in October of 2020, which was cited in a Washington Post article earlier this year.

So we allowed ADUs by rights citywide, we relaxed off street parking requirements, ensured there was no owner occupancy requirement, and revised the definition of building lot coverage to allow for accessible ground-level
living.

Additionally, connecting with the AARP folks comment to start the day, we successfully implemented a community challenge grant project to create an ADU guide for the general public in Evanston with the goal of spreading education and awareness around what residents can now build on their property. And we have an ongoing public/private partnership utilizing home funds to build an affordable two-bed rental ADU in partnership with our city government, which will be rented at or below 60 percent of the area median income.

Despite this progress from a regulatory standpoint on the city's end, we are continuing to see hesitancy from Chicago banks and financial institutions around lending on accessory dwelling units. We get inquiries from across the wealth and income spectrum, but especially when we speak with low, moderate, or middle-income homeowners. I think the biggest barrier to a project is often financing.

You know, they often have the land to take on the project under zoning regulations, though especially in our historically disinvested and redlined neighborhoods home value often doesn't reach a point where a home equity line of credit will work, especially if they're hoping to do a detached accessory dwelling unit.

We have found that most regional banks are willing to
do a home equity line of credit for an accessory dwelling unit, though; given that, I believe the bank's portfolio, these loans, the underwriting standards, and the credit score requirements are strict.

I don't want to double up on points other folks have made. We also see the appraisal issue, especially here, given that, you know, I think Chicago is two or three years behind the west coast in terms of accessory dwelling units. So from an appraiser and lender perspective we really that need for education here, and, to be honest, with the renovation loans that consider as completed value, we just really don't know how these units will be appraised when calculating the as completed value, given that comps are typically used during appraisals, and there are very few comps.

So from our own experiences we briefly explored construction loans for some time, only to learn that most banks in our region have shifted away from this work given the technical knowledge required for construction draws and inspections. So just summarizing what we've heard from other folks, and we're in agreement. Perhaps a GSE backed ADU renovation mortgage that considers both as completed value and a percentage of future rental income could make these units more accessible to finance.

Either way we think a clear note in some capacity to
lenders, in addition with education and clear regulations that are communicated far and wide that GSEs would purchase ADU financial products, we think would really be significant in allowing residents and homeowners in our community to age in place, house their aging parents or loved ones, or provide a long-term rental unit.

So thank you so much for your time and your consideration.

TOI ROBERTS: All right. Thank you, Mr. Markus.

Our next speaker is Ms. Garlynn Woodsong from Woodsong Associates.

GARLYNN WOODSONG: Hello. Thank you for cueing me up; appreciate it.

All right. Well, hi. I'm Garlynn Woodsong with Woodsong Associates. And next slide, please?

So my approach to my comments is just to answer the questions that were asked in the invitation to this listening session. And so the first question is to what extent could the increase availability of ADUs contribute to increase in housing supply? And I think the answer to this is everything's local, and it really depends on where you're at.

In California, SB-9, which has not yet been signed by the governor, but hopefully he'll sign that as soon as he defeats the recall initiative, would propose to allow
splitting any residential lot in two and then to allow a
duplex, or a main house plus an ADU on each specially
created lot. And so that opens up a whole universe, which,
going back to John Anderson's comments of possibilities to
have two homes on the same lot and what do you call that, a
main home plus an ADU, or just a duplex? I'm not sure
should really matter to the underwriting community. Let's
go to the next slide, please?

So the next question is are there parts of the country
or segments of the housing market that would particularly
benefit from increases in the number of ADUs? I think that
the top line answer is that any place with a housing
shortage would definitely from ADUs, but even in locations
without a general housing shortage, those locations could
still receive benefits from ADUs in providing new homes in
location efficient neighborhoods, especially for market
segments, including empty nesters, multigenerational
households, renters, etcetera. Next slide, please?

So in addition to increasing the supply of housing what
other policy goals should the Enterprises consider when
thinking about ADUs, such as supporting home ownership or
using rental income to build wealth, or supporting
intergenerational households, or in enabling seniors to stay
in their homes, or other goals, one thing that I'd like to
interject as a possibility for ADUs as new construction to
enable gray water irrigated drought resistant trees and shrubs to have to be planted and have their growth supercharged to more quickly deliver a mature landscaping for the increasingly important common outdoor areas that will be more shared and more used with an ADU on the property.

So the gray water system is something that's very cheap to install during new construction, but a lot harder to retrofit to an existing structure. So if you're putting up a new structure in the backyard, that's the time to install gray water, during construction, and then that can water the new trees to be planted to shade that new common area that everyone on that parcel will be sharing.

Another opportunity here is to enable housing cooperatives, as the gentleman from Illinois was mentioning, as another way to commonly hold multiple units on the same land beyond condominiums. And then also supporting appraisals that properly value an ADU for the purposes of obtaining construction financing to build one based on income potential. Next slide, please?

So the major barriers to ADUs, again, the answers to this question are largely local, except for access to finance, and access to finance is inequitable. If you have it you can get it and if you don't you can't. So FHFA needs to work with neighbor and scale cooperatives to change this
and provide equal access to the benefits of ownership and affordable occupant owned rentals. Next slide, please?

So how can this happen? I would say one option is widespread financing for new housing cooperatives, including whole coop loans to allow the coop itself to offer unit financing using sharer loans, and to be fully responsible for underwriting new coop members, as well as support for construction loans made wholly based on the anticipated ADU rental income, not based on a signed rental contract, because get real. That's not how the rental market works. Your renter doesn't sign a contract to rent something that you're just breaking ground on now. Where are they supposed to live while you're doing construction? That's not what renters do.

So support for financing for ADU construction needs to be based on the local market average rent without a requirement for a signed rental contract, which is, you know, that's a ridiculous requirement. Makes sense maybe to underwriters, but does not match the reality of the rental market. Next slide, please?

So ADUs are often added to existing homes, but they could also be built as part of a new development. To what extent is there interest in including ADUs with new homes amongst the builder/developer community? Short answer is, yes, there is interest, and where it's legal it happens.
can point to half a dozen new developments in my own neighborhood here at Portland that have included a new main home as well as a new attached ADU, usually in the basement. If the zoning act produced more units, then thus, in theory, more income.

The problem is that appraisals often place an artificial lid on the value that does not equal the sum of the value of the main house plus the full value of the ADU, and this makes it difficult for this development model to be sustainable without using condos or coops to essentially force the system to assign a per unit full valuation of the ADU. Next slide, please?

So both Fannie Mae and Freddie Mac currently purchase mortgage loans on properties with an ADU; are there particular product flexibilities that the Enterprises should consider to increase support for ADUs? The first one is support cooperatively held ADUs, and the second one is support construction loans on spec based on the future revenue from a rental ADU. Again, without needing to see a tenant contract signed advance construction. This would in particular provide benefits for historically disadvantaged community members, meaning anyone who's not already with financial resources. Next slide, please?

What funding sources are commonly used to build ADUs? So home equity lines of credit, cash out refinance, and cash
from the sale of another property, I would say, are the
three most common financing forms, and that's because
there's not a conventional financing pathway that really
makes sense that's largely available. Next slide, please?

What other funding sources are available? That's a
good question. There are very few innovative ADU financing
programs available anywhere. Those that exist are often
oversubscribed, or little more than a cash out refinance
rebranded as ADU financing. Next slide, please?

How can these sources be expanded to create additional
liquidity? A secondary market for ADU specific notes might
allow existing ADU finance programs to scale, especially if
it's specifically catered to loans made on spec based on
future potential rental income. Next slide, please?

TOI ROBERTS: One minute remaining.

GARLYNN WOODSONG: Do ADUs -- thank you -- or potential
policy or programmatic changes pose any particular risks to
the safety and soundness to the Enterprises? And the answer
is no more so than any other product type. The greatest
risk might flow from not creating an instrument that allows
for the ADU to be valued independently from the primary
residence, unless appraisal standards are updated. Next
slide, please?

Finally, are there other concerns associated with ADUs
that the Enterprises should be aware of? Only if your
concerns are preserving racial segregation and a system that is rigged to further enrich the one percent. But, if your goal is equitable access to finance, no, there are not other concerns.

Thank you. That's the end of my comments.

TOI ROBERTS: Thank you, Mr. Woodsong.

Our next speaker is Ms. Sarah Berke from Family Housing Fund.

SARAH BERKE: Hello. So, hi. I'm Sarah Berke Program Officer leading housing supply efforts at the Family Housing Fund. We are a nonprofit intermediary working to build a stronger housing system in the Minneapolis/St. Paul region, and you can find our ADU resources at fhfund.org/adu.

I'm very grateful for this attention from FHFA and from the GSEs to the affordable housing potential of ADUs. It is also wonderful to hear the perspectives of other speakers here today. I am learning a lot, and appreciate all of those of you who are still with us after the day-long session.

So the Family Housing Fund sees ADUs as one important tool in our toolkit to address the shortage of affordable housing in our Minneapolis/St. Paul region. We looked at this with the perspective that if ADUs became common throughout our seven county metropolitan region, as they are in, say, Portland, Oregon, which is about 1.5 percent of all
single-family homes, we could create 11,000 new homes
developed by entirely new development actors in our housing
system. And that is a substantial portion of the new homes
that we need, especially in the type of one-bedroom
household category in our region in the next couple of
years. But, to date, the actual number of ADUs developed in
our region is only around 300, probably less than that.

From an affordable housing perspective, we did a survey
in 2018 at Family Housing Fund and found that most ADUs
built serve people at naturally affordable rents. So
affordable to 60 percent AMI, or about $56,000 per year for
a household at that time. As part of our work on ADUs,
which began just a couple of years ago, we identified three
important strategies to encourage further ADU development in
our region, and many of these have been mentioned and are
consistent with strategies needed nationwide, I know.

The first is just more information. So the oldest ADU
policy in our region was enacted in 2014. So ADUs are still
relatively rare. We created a homeowners guidebook to
encourage or support interest in ADU development and provide
examples and case studies of ADU projects underway. That's
available online.

And to encourage ADU development outside of our core
cities and more suburban areas we're launching a new design
idea book this fall. It'll have its design ideas specific
to mid-century and inner-ring suburban housing forms in those neighborhoods and in suburban communities that don't many ADUs historically.

The second set of strategies we identified to encourage ADU is a better policy. So also on our website is a best practices resource and briefs that we've put together for local municipal governments who want to actually encourage ADU development. I've learned from many of the folks on this call and nationally to identify what those practices are.

And then the third set of strategies is really the twin challenge of increasing access to capital and reducing development costs for ADU. That, of course, is the biggest barrier to building more ADUs; that's why we're all here today. The most affordable way to build ADUs that we found was either to convert existing interior space, or to build a new ADU as part of a new home in the first place. So we encourage affordable home ownership subsidy programs, affordable home ownership developers to recognize this, and to incentivize it in our affordable housing guidelines.

Locally we have the Minneapolis City of Lakes Community Land Trust. They're a national leader innovating affordable development that includes ADUs. They have built several projects where an additional one-bedroom ADU can be attached to a newly built single-family home for a marginal cost.
increase of only about $40,000. So that's a one-bedroom unit that is added to our housing system, versus spending three hundred thousand or so, for a brand new housing tax credit unit.

Also encouraged by opportunities to reduce construction costs where possible, so the promise of manufacturing, and construction revolution in offsite technologies, it's really important to bring down the cost ADUs. Really glad to have Nichol from YardHomes here represent us here as well.

And then, you know, the most transformative strategy that we really need more focus on, and more help nationally from other partners, is on increasing access to ADU financing, especially for people who aren't able to tap existing home equity or their personal wealth. We recognize at Family Housing Fund that the potential to earn rental income is a really important wealth building opportunity for low- and moderate-income households.

For this reason we are working not only to encourage ADU development, but also working with many partners locally to increase opportunities for Black, indigenous, and people of color households to purchase owner occupied rental homes of various kinds, homes with ADUs, and also two- to four-unit properties.

So with all of that work in mind, I really encourage the FHFA and other partners here to bring attention to
financing barriers, including appraisal practices, and support adoption of emerging best practices for appraisals and evaluations, to encourage incentivizing CDFIs and community banks, and state housing finance agencies, to innovate in products that can underwrite future income streams.

And I wanted to also share one resource we are building here with partners in the Minneapolis/St. Paul region to help increase access to capital. We're developing training and support systems for new landlords to reduce the risk of loans for ADUs and small multi-family properties for owner occupants, and we believe that training and education and other support can help provide credit enhancement, and we can also provide financial support for credit enhancement to support innovative financing strategies.

One of our partners, Hope for Unity, which is a community development corporation based in south Minneapolis, is developing a community ownership training cohort model to prepare future owner occupant landlords to purchase and succeed at operating small rental buildings.

Another partner, Minnesota Home Ownership Center, which coordinates statewide home ownership advising networks, they've developed a one-hour self-directed online training program for owner occupant landlords to prepare homebuyers who are considering buying a small multi-family property,
and encourage them to get connected to the resources needed to make that successful.

And then to support stable and successful ownership for new owner occupant landlords, we at Family Housing Fund are partnering with another local nonprofit, Prepare + Prosper, to incentivize savings behavior type mortgage payments. So we will match up to $3,600 over the first three years of a new homeowner's ten year in a multi-unit property, and that's a new pilot we're launching this year.

So we believe that providing this kind of strategic training and ongoing support to new owner occupant landlords to make financing, whether for ADUs or other small multi-family properties, really successful for homebuyers and for lenders alike. And this is extremely important as a renewed tool for closing home ownership as well. Thanks.

TOI ROBERTS: Thank you, Ms. Berke. Thank you.

Our next speaker is Mr. R.J. Adler from Wheel Pad.

R.J. ADLER: Hi, folks. I am totally psyched to be on the phone with all of you today, or on the Zoom call with all of you today. I feel like this is, you know, after the time that I've spent in the ADU industry, it's something that I've wanted for a long time, which is to get a whole bunch of smart minds to sit down and discuss, specifically, the financing.

So I'm coming from Wheel Pad. We are a small but
mighty Vermont based company. We manufacture accessory
dwelling units specifically that make any property a
universally accessible place. It's a modular unit and the
folks that we work with are trying to make their properties
suite their needs, because maybe they've recently gotten
into a car accident, and they need a place to recover, like
at home. Or they want to move in with a friend, you know,
all the reasons that folks have accessory dwelling units.

And I agree wholeheartedly with so many of the things
that all of the people on this call have said today about
the nitty gritty important details and financing changes
that need to be made, and I'm so glad you're here to say it,
because you're far more eloquent than I am. I'm going to
share a little bit of Wheel Pad's experience, which is sort
of our very first financing product that we were able to
secure. We were able to secure not because we're an
accessory dwelling unit, but because we are an assistive
technology for people that need universal accessibility.

In Vermont we have the Independent Fund through
Opportunities Credit Union, which is available to any
Vermont who wants to finance the assistive technology that
they need to make a successful go at life, right? And they
saw the potential of our product as an accessory dwelling
unit, and they expanded that fund to cover our products, and
installation of our products.
That being said, we kind of had to Trojan Horse ourselves into the financing market, and, gosh, it would have been a whole lot easier if, you know, these changes that folks have talked about today were implemented in such a way that people wouldn't have to think, oh, gosh, like how could I potentially finance an addition like this? How could I potentially finance a way for my mom to come home and live with me as opposed to, you know, go live in an assisted living facility, or something along those lines?

So, you know, I wanted to highlight that real example. I wanted to, you know, thank the other folks on the call, and the other companies and organizations that are creating these kind of bootleg ADU portfolio loans, you know, trying to use the tools that we have available. You know, Nichol from YardHomes, you know, mentioned that she's got a product. There are a handful of other companies that I've found that have kind of an inhouse financing tool similar to the way Wheel Pad does it, but using the structure, using the system to be able to finance these is just going to increase developments so much more for all of us.

So I'll end with that. I'd love to keep this conversation going. I'm going to highlight the Google groups that Garlynn has put in the chat. You know, I threw my contact information in there. I'm always happy to chat with the rest of the folks on this call. And thanks so much.
to the FHFA for putting this all together. Have a great
day.

TOI ROBERTS: All right. Thank you, Mr. Adler.

Our next speaker is Mr. Joe Serrano from TentMakers,
Inc.

JOE SERRANO: Hello. Thank you so much for this
opportunity to speak to everyone. I also want to thank
Director Thompson and the FHFA staff for all their hard work
and for putting this session together. I think it comes at
the appropriate time.

My name is Joe Serrano. I am the CEO and the Executive
Director of TentMakers, Inc. We are a community housing
development corporation. I am also the chair of the
California Minority Builders Coalition, and I'm also the
lead for the local CRA Leadership Council.

By way of background, back in December of 2020, the
National Minority Community Reinvestment Cooperative
sponsored a CRA meeting with the CRA regulators, including
the Federal Reserve Board, the OCC, major banking
institutions nationwide -- City Bank, Wells Fargo, B of A --
and a host of minority small businesses and nonprofits to
discuss this topic of modernizing CRA. My background is in
redevelopment, and so I have a lot of experience doing
public sector underwriting, making loans and grants to
low- to moderate-income households for the purposes of
creating work force housing and developing the work force.

As a result of our summit with the National Minority Community Reinvestment Cooperative, we formed the California Minority Builders Coalition and the local CRA Leadership Council to continue the work that was discussed on the national level here in California.

So the California Minority Builders Coalition is made up of approximately 20 to 30 minority nonprofits and small business statewide, and we have begun a crusade to meet with our local CRA banking partners and our local public sector partners, including the local cities and counties, to recreate public/private partnerships in order to make working capital available to minority small businesses and nonprofits for the purposes of increasing the wealth building and the equity creation for minority households in the areas of work force housing and work force development.

Some of the things that I would like to talk about you have already mentioned, and a lot of the components that were mentioned in the session are some of the components that we are utilizing within our organization, working with the California Minority Builders Coalition, and the local CRA Leadership Council. I want to read a little excerpt from the Grand Rapids Business Journal regarding PNC's recent acquisition of BBVA here in California, which is a very good opportunity for local minority small businesses
and nonprofits to engage with their local CRA regulated banks, because of the movement that is going on nationally, and locally here in California, with respect to making working capital available to minority small businesses and nonprofits for the purposes of work force development and work force housing.

PNC Bank has committed to a four year, 88 billion dollar community benefits plan that will aim to expand economic opportunities for minorities and low- and moderate-income individuals and communities. The plan, developed in connection with the anticipated regulatory approval and closing of PNC's pending acquisition of BBVA, USA Bank shares, including its U.S. banking subsidiary BVA USA, based in Houston, covers the geographies currently served by PNC, including Michigan, and the new geographies PNC will expand into due to BBVA USA acquisition, including Texas, Alabama, Arizona, California, Florida, Colorado, and New Mexico.

So what this does is it provides us an opportunity to work with our local CRA regulated banks, not just PNC/BBVA, but other CRA regulated banks, to work with them on creating new markets or new products to address these issues that are emerging. Such as the ADU market, which has been an extremely busy market here in California. One of the most surprising things that I have experienced in my work with
ADUs is housing market has not seemed to have been affected at all by the COVID-19. I have seen a lot of other industries in the minority low- to moderate-income household sectors that have just completely fell out of the economy, small businesses, minorities who work for service based companies who have just gone under, upside down, because of their lack of income and ability to make enough money to stay in business and, or, to stay in their homes.

One of the historic things about income and housing prices here in California is that historically incomes have increased over a 10-year period -- just take any 10-year period -- 10 percent while the median home prices have increased, on average, 30 percent. And it's probably more now. So, really the problem, the challenge is how do we cover the gap? How do we bridge that gap between what people are earning at the lower income levels, and the median home prices?

And so one of the things that I would like to talk about is how we can include the private -- or the public sector -- in the private sector lending arena and try to mitigate risk. One of the things that I have noticed in my negotiations with PNC -- and, by the way, we have already started our negotiations with PNC/BBVA, and given this announcement of the 88 billion dollar commitment it's going to open up a lot of doors for opportunity for us to create a
dialogue on how can we create new underwrite expanders. Perhaps this would be a good topic; in fact, is what we're talking about now, which is how do we include or create flexible underwriting standards that are acceptable in the secondary mortgage market? And how can we use the public sector to mitigate risk to the private sector? Because in the public sector we have a little bit more flexibility with respect to how we lend money. My background is in redevelopment, so we used to do a lot of loans --

TOI ROBERTS: One minute (indiscernible)** 3:09:37.

R. J. ADLER: -- to low to moderate income households that were then able to leverage the private sector financing to close that gap. One of the things I would like to suggest is that, maybe, we can establish an ADU consultant, similar to what FHA does -- FHA 203k does -- with their 203k consultants so that you have somebody who is specialized in ADUs, but also understands the underwriting criteria and how banks operate, because they're not on the ground, they're not the eyes and ears on the ground. That would be the consultant's role. So that's one thing to do.

The other thing that we can do is we can kind of create flexible, affordable housing covenants that go with the subsidies, that will mitigate the risk on private side. So I want to thank everyone for everything that has
been said here, because this is going to give me more
information, our team, the CMBC, the California Minority
Builders Coalition, more ammunition to negotiate new
products and create new products, lending products, on the
private side, and then use the public side to help create
credit enhancers to make it more doable.

So thank you so much for the opportunity to share these
ideas with you. I look forward to working with you in the
future, and I hope that we can come together again and kind
of give progress reports and see how we're all doing. Thank
you so much.

TOI ROBERTS: Thank you, Mr. Serrano.

Our next speaker is Mr. Rafael Perez from Casita
Coalition.

RAFAEL PEREZ: Hello. Thank you for having us here
today. I'm Rafael Perez. I'm a board member with the
Casita Coalition based out of California, and we're a
nonprofit whose focus is really on supporting small housing
as a solution to some of the issues that continue to come up
with our nation's housing crisis. Specifically around ADU,
and Casita Coalition was really instrumental here in
California in really just helping tip over that first domino
when it comes to ADUs, and that was really helping clear
some of the regulatory red tape that existed for actually
building the ADUs, which, year over year, has resulted in an
ongoing increase of the amount of ADUs that are being built. You know, obviously, to build those the people who were first in line tended to be those with access to capital, which was either cash or equity where they could borrow from the equity in their home in a regular cash out type refinance, equity line of credit, or they just had the capital liquid to play to use on their property. If you look across the state, those that are building ADUs tend to be those with access to capital.

So really the question then becomes how can ADUs and other small types of housing, including multi-family options, become more accessible to communities of concern. And, you know, the one thing that we've found -- I co-chair our finance committee for the Casita Coalition -- is if we really had to find what is the -- it's being cliché -- what is the silver bullet that would really solve the access to capital issue. Time and time again we continue to see that it's the ability to include the potential rent on a future unit as qualifying income. And I think that when we see that being able to be factored into the qualification, much like an FHA 203k type renovation loan would allow, you know, future income on a second unit duplex, if the similar treatment were given to future income on an accessory unit -- which at the end of the day the final product is virtually the same as the multi-unit property in many
cases -- that slight shift in allowing that potential rent to be used as qualifying income would really be a game changer. Not just in allowing people to purchase a property and build an ADU in the purchase process, but also for listing homeowners who may not have a ton of equity, you know, to be able to use both the future value of the finished product, like most renovation programs account for, but also the potential rental income, especially in today's renting environment with the low cost of money.

Time and time again, especially in high cost markets like California, we continue to see that the cost of borrowing is far offset by the potential income stream that that unit creates, and it really gets two key points that are just critical in solving some of our nation's housing problems. One is affordable housing by nature. These small units are a naturally occurring form of affordable housing. But also housing affordability, particularly in communities of concern where people often are stretched out to be able to qualify and afford to purchase a home and become homeowners. Having this income stream, especially if it were to be able to be used to be qualifying income, would truly be the game changer that may take people who are just shy of home ownership and put them not into the space of home ownership, but put them into the space of affordable home ownership.
So we really think that the ability to use the potential future rents in qualifying income is key, and we have had, you know, discussions with other agencies about this, including the CFPB, and we hope that it will also look at that as an important piece, not a whole new, innovative, brand new product. These renovation programs are already existing. It's just the ability to be able to consider the rent potential of it, just like it's possible on multi-unit buildings that are currently vacant and want to use a rent survey to do that. The potential rent is a quantifiable, measurable number for qualification purposes.

So, you know, we think that that one issue alone, far and above all the other issues, is one that could really be a game changer, could really shift the paradigm as to how people become homeowners, how they manage home ownership, how they look at multigenerational housing, especially in high cost states like California where people are either on the beginning of their home ownership journey straight out of college with lots of debt, or in their later years. This is just one more solution that's going to provide these multigenerational opportunities for families to build wealth, to create affordable housing, to create housing affordability. And I think that the timing is critical right now at this moment in history when access to capital is quite affordable and that one guideline change could
1  completely open the doors for this to create opportunity in
2  the communities who have less access to the capital needed
3  to create this type of inventory.
4  So, you know, on behalf of the Casita Coalition I am
5  grateful for the opportunity to speak to you all today.
6  Thank you for having this listening session and hearing
7  everybody's input as to the finance issue here, but I thank
8  you for your time.
9  TOI ROBERTS: Thank you, Mr. Perez.
10  Our next next speaker is Ms. Christina Stacy from The
11  Urban Institute.
12  CHRISTINA STACY: Thanks so much for allowing me to
13  speak today about ADUs. My name is Tina Stacy and I'm an
14  economist as The Urban Institute, but the views I'm about to
15  share are my own and should not be attributed to Urban, its
16  trustees, or its funders.
17  So as people have said throughout this session,
18  accessory dwelling units represent potential wealth building
19  opportunities for (indiscernible)** 3:18:30 homeowners, a
20  way for elderly residents to age in place while maintaining
21  privacy, and an alternative for young people who want to
22  live at home to save money. And ADUs may also increase the
23  supply of rental housing for low- and moderate-income
24  renters in high cost neighborhoods.
25  However, like all land use regulation, how an ADU
regulation is designed, and what financing mechanisms are available determine what impact they will have on equity. While many studies have enacted laws allowing for ADU construction, some of these regulations serve to reinforce racial and income inequities rather than reduce them. And some make adding an ADU too burdensome all together.

Community engagement processes that lift the voices of higher income homeowners while underrepresenting renters of lower income serve to create regulations that are inequitable. Examples of such regulations are those that have conditional or discretionary review processes that are extensive and create uncertainty, owner occupancy requirements that limit the flexibility for homeowners with lower incomes who may be forced to move due to unforeseen circumstances, off street parking requirements, which add costs to the development of ADUs and sometimes make building an ADU impossible all together; and setbacks and size rules that can limit the ability of homeowners with lower incomes and smaller lots to develop an ADU at all.

Additionally, the extent to which ADUs affect the overall supply and affordability of a housing market depends on the degree of demand for such units and the ease of creation, those elements determined, in part, by the zoning code and planning department's partnership with local social and financing organizations. Research suggests that ADUs
offer promise for improving affordability and supply at a critical segment of the market. Given their high costs to construct for home owners, most ADUs rent at a higher rate per square foot, but their smaller size means total monthly rent levels are lower than larger apartments.

Additionally, homeowners often rent ADUs to family or friends at below market rates. However, even when renting to strangers, one study found that ADUs rented for six percent less than non-secondary units. According to a study in Oregon, 13 percent of ADUs were rented for no money, and 7 percent were rented for $500 or less. Another study in Alberta, Canada, found that 25 percent of ADUs were rented for less than $500.

This is comparable, and often exceeds common inclusionary zoning affordability goals of 10 to 30 percent of units rented at affordable rates. Some cities have taken extra measures to provide housing to the lowest income renters. For example, a nonprofit in L.A., the Backyard Homes Project, offers financing, building design, and construction support in exchange for a pledge to house Section 8 voucher holders.

While incentivizing ADU developments for very low income renters may be beneficial in some cases, in some instances income restrictions can be counterproductive. Kol Peterson, a prominent ADU advocate, stated that because
there are already so many financial and regulatory barriers for first-time ADU developers, affordability standards should be incentivized or subsidized rather than mandated.

However, all these design elements and supportive programs are important for determining the equity of ADU regulations. So by far the biggest area of ADU development for families with low and moderate incomes is the lack of financing options, as others have mentioned. Costing anywhere from $20,000 to $400,000 or more, ADU construction usually requires homeowners to find a special line of credit for financing, but most states do not have products that suite such needs.

The current tools available to homeowners who need capital for ADU construction are home equity lines of credit and cash out refinances. Those may be infeasible for middle and lower income home owners who have little equity in their homes.

Many households that wish to build an ADU, therefore, are forced to rely on savings, loans from their 401k account, loans from family and friends, or credit cards and other unsecured loans to finance their ADU. Another action of construction loans is they have higher interest rates and often only make sense if the property is going to be sold or refinanced upon completion.

So due to the racial wealth gap in this country, all of
this means that white, non-Hispanic families are more likely to benefit from ADUs since they're more likely to own a home and more likely to have savings that can support the development of an ADU.

Therefore, there is a need for more standard and innovative financing options from banks and government lenders. Renovation financing that accounts for the value of the home, including the ADU, and the rental stream that could come from that ADU, would be a great option for homeowners, but it's rarely offered by banks in areas where ADUs are not already very common.

TOI ROBERTS: One minute remaining.
CHRISTINA STACY: I'm sorry?
TOI ROBERTS: One minute remaining.
CHRISTINA STACY: Okay. Thanks.

Providing financing mechanisms that reduce the cost of developing an ADU can help with the affordability challenge more directly by allowing ADUs to be rented at cheaper rates and creating additional financing mechanisms to help families with low levels of wealth develop ADUs can help to adjust the racial wealth gap in our nation. Addressing these disparities is really an imperative for our leaders, since many of the inequities in our country were directly caused or exacerbated by racist federal, state, and local policies and program.
As Richard Rothstein put it in The Color of Law, to begin to address this history we will first have to contemplate what we have collectively done, and on behalf of our government accept responsibility. Our country's current focus on racial justice and inclusive recovery provides us a window of opportunity to change the wealth and equality trajectory and address the policies that created these inequities. While ADUs are just a small drop in this bucket, ensuring that they are designed and implemented in an equitable manner, and that there are financing mechanisms that allow families with low wealth to benefit from them are a step in the right direction. Thank you.

TOI ROBERTS: Thank you, Ms. Stacy.

We just so happen to have one more speaker that did not make our agenda but has been requested. So we are excited and happy to have Mr. Abdur Abdul-Malik join us today, an appraiser from the A Quality Appraisal. Mr. --

ABDUR ABDUL-MALIK: Greetings. Can you hear me okay?

TOI ROBERTS: Yes.

ABDUR ABDUL-MALIK: Okay. As mentioned I'm Abdur Abdul-Malik. I'm a certified residential appraiser with A Quality Appraisal. I hold the SRA designation from the Appraisal Institute, and the ASA designation with the American Society of Appraisers. I have been studying the contributory value of ADUs in the Portland, Oregon, market.
area.

Now I originally signed up for this listening session intending just to listen, as I assumed a representative from the Appraisal Institute or the American Society of Appraisers would be on the agenda, so I want to apologize for not having a formal set of slides, as this is being done impromptu.

First off, I fully recognize that some appraisers should not be allowed within 10 radial miles of an ADU evaluation. I have been doing presentations on valuing them and I've even shared in a presentation with Denis DeSaix. That was the appraiser previously mentioned, who's developed formal courses on the topic. So we recognize that there is definitely a competency issue at play.

I do strongly recommend that lenders build panels of appraisers who do quality work in the space, or, if they're using middle-man companies, such as appraisal management companies, make sure that the agents you select are not simply using the fastest and cheapest appraiser.

My appraiser colleague Robert Long, who spoke earlier, also made this point. Fast and cheap will often derail the lending process.

Now when it comes to valuing ADUs there is no magical one-size-fits-all approach. The appraiser uses three primary approaches to value.
sometimes overstate the contributory value of the ADU. Cost
does not always equal value. The improvements may be what
we call in the business a super adequacy. Kind of a fancy
word, a super adequacy. It basically means that it
contributes value, but it may not return value dollar for
dollar. Now, of course, this does vary by marketplace.

The income approach is tricky, as valuing a home as
though it were a duplex or multi-family home may actually
result in a diminution of value in some markets. It becomes
a highest and best use issue. And, yes, there is a
correlation between rental income and property values, but
when it comes to ADUs, it's not a perfectly linear trend.
And that's because the motivations for building ADUs go
beyond just income consideration, such as multigenerational
living on the same site. So be careful not to conflate
being able to qualify a borrower and the value that the home
may be because of the income. The two may be correlated,
but not as tightly as you might think.

So the last approach, the major one, the sales
comparison approach, that's the one that most of us on this
listening call are familiar with. That involves using
comparables. The sales comparison approach is often called
the gold standard, because at the end of the day we need to
see what the market will do when a home with an ADU goes on
sale and how much it will sell for.
I've been slowly doing that as a side project and in my professional practice. One previous participant stated that they've been having the appraiser include the ADU as a primary living area. But the question becomes does the market recognize the ADU as a primary living area, or does it see it as an auxiliary space, thereby showing a discount?

Another previous speaker said appraisers should value ADUs separately from the main property. But since ADUs are not sold independently -- unless they're condo-ized, and that's a whole different can of worms -- they must be seen in the light of their contributory value. The whole may or may not be more than sum of its parts. The market decides, not appraisers.

I often tell people that my job is a lot like Al Roker's job. I report the weather; I don't make it.

It's also very important that appraisers demonstrate the validity of any approach used by cold, hard facts, nothing more, and nothing less. An ideal appraisal would include nothing but similar properties with the same type of ADU, and the same ownership rights, and even same or similar zoning, thereby making it moot what to call the property. As Shakespeare said a rose by any other name would smell just as sweet.

Data may be scarce in some markets, especially those where ADUs are entering the housing supply, so I recommend
the sponsorship of case studies in various marketplaces by leading appraisers in the space. A series of FHFA case studies could produce a broader statistically valid approach that appraisers could reference in their reports if their markets have little local data to rely on. Now these studies may cost tens of thousands to, perhaps, fifty thousand per major metro area, but I think it would be worth it.

Finally, as income guidelines change, and increasingly incorporate the revenue stream from ADUs, this will begin to be reflected in the resale value of homes as knowledgeable market participants will appropriately price their homes with ADUs when listing them for sale. This will then percolate into appraisals as the comparable use, if they have an ADU, should reflect a generally higher price. Real estate is not location, location, location. Real estate is comparables, comparables, comparables.

Feel free to reach out to me if you have any questions, or even if you want to commission a case study project. I will put my email address in the chat. I'd like to thank you for your time and the opportunity to speak in this FHFA listening session.

TOI ROBERTS: All right. Thank you, Mr. Abdul-Malik. Glad we were able to have you included.

This now brings us to the end of today's session on the
use of accessory dwelling units to increase housing supply.

Thank you, all, again for your comments and supporting us today. We really appreciate and value your feedback.

Please, visit our website at www.fhfa.gov to learn more about accessory dwelling units.