

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

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

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

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

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

1 Acting Director Sandra Thompson, who will provide opening  
2 remarks. Since her appointment only three months ago,  
3 Acting Director Thompson has announced a slate of  
4 initiatives that will increase the supply of multi-family,  
5 single-family, and manufactured homes.

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

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

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

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

1 results, and other states are considering following their  
2 lead.

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

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

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

25 FHFA's mission through our regulated entities is to

1 responsibly foster a sustainable housing finance system that  
2 supports equitable access to affordable, decent, and safe  
3 home ownership and rental housing. The information and  
4 perspectives you share with us today will help us carry out  
5 this very important mission.

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

8 REBECCA COHEN: Thank you so much, Director Thompson.

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

13 Take it away, Mike.

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

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

25 So Fannie and Freddie Mac have been active purchasers

1 of mortgages supporting home ownership, and mortgages with  
2 accessory dwelling units in particular, including those  
3 mortgages that may be supported by manufactured housing  
4 units as an ADU. We have a wealth of information on our  
5 website around our purchase offerings, in particular around  
6 ADUs, the requirements associated with those types of  
7 mortgages. They're available on our single-family website;  
8 it's [sf.freddiemac.com](http://sf.freddiemac.com).

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

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

24 Thank you, and I will enjoy the discussion.

25 REBECCA COHEN: Thanks, Mike.

1           And now we'll hear from Mike Hernandez, Vice President  
2 of Engagement and Impact at Fannie Mae.

3           MIKE HERNANDEZ: Thanks, Rebecca.

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

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

16           ADUs contribute significantly to housing affordability,  
17 sustainability, and accessibility by increasing rental  
18 housing opportunities and offering more affordable housing  
19 to the community where it might not have existed before. By  
20 generating additional income that can be put toward keeping  
21 borrowers in their homes, and enjoying the community  
22 benefits of prolonged home ownership. And, of course, by  
23 increasing the rental stock and providing additional housing  
24 opportunities in communities where rental properties may not  
25 have been an option before.

1           Just as states, counties, and cities are removing  
2 barriers and providing incentives to encourage homeowners to  
3 build ADUs, Fannie Mae is also working with our lenders to  
4 attract greater adoption and lower the cost of mortgages for  
5 homes with ADUs. We're exploring flexibilities around ADUs  
6 with several manufactured housing types as the primary  
7 residence, including our MH Advantage eligible homes, and  
8 HUDCO manufactured homes.

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

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

23           So I know with your continued support and engagement in  
24 the ADU space, we can have a substantial positive impact and  
25 increase in the availability of affordable housing supply

1 across the single-family and multi-family mortgage market.

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

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

8 So, Toi, please, take it away?

9 TOI ROBERTS: Thank you, Rebecca, and hello, everyone.  
10 My name is Toi Roberts, a member of the Duty to Serve team  
11 here at FHFA, and I will be introducing all of the speakers  
12 at today's session. Before we move forward with hearing  
13 comments from the speakers today, I do have a few important  
14 housekeeping remarks.

15 As you know we have organized this webinar to obtain  
16 your input on the use of accessory dwelling units to  
17 increase housing supply. During today's session, FHFA will  
18 not discuss the status or timing of any potential rule  
19 making. If FHFA does decide to engage in their rule making  
20 on any matters discussed at this meeting, this meeting would  
21 not take the place of a public comment process. The rule  
22 making document would establish the public comment process  
23 and you would need to submit your comments, if any, in  
24 accordance with the submission instructions in that  
25 document.



1 FHFA may summarize the feedback gathered at today's  
2 session in a future rule-making document if we determine  
3 that a summary would be useful to explain the basis of a  
4 rule making.

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

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

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

23 Finally, we want to mention that today's session is  
24 being recorded. FHFA will also prepare a transcript of  
25 today's session, which will include the names of all

1 speakers and the organizations for which you all represent.  
2 We will post the recording and transcript on FHFA's website  
3 and YouTube channel, along with other materials related to  
4 today's session.

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

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

11 Ms. Arigoni?

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

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

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

25 Our conclusion is that, in general -- next slide,

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

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

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

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

1 please?

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

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

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

25 But I want to focus on our approach to ADUs given how

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

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

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

21 Earlier this year, we released an update to our 2000 --  
22 you heard that right -- model code on ADUs, which we  
23 developed with some of the country's top experts, and which  
24 represents our priorities for ADU production, including our  
25 preferences around owner occupancy, conditional use permits,

1 parking, and more. Our hope is that our model code can  
2 serve as a starting point for policy change, and expedite  
3 action at the state and local levels.

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

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

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

23 Finally, local officials themselves became convinced of  
24 the value of ADUs, in part, after reading our *ABCs of ADUs*  
25 publication, and called on the AARP state office to more

1 fully engage. As a result, AARP Iowa volunteers  
2 participated in public comment processes, and AARP enacted a  
3 public information campaign in Iowa about ADUs, all of which  
4 led to the passage of ADU policy in 2019. And AARP Iowa  
5 today continues to play the role of educator and proponent  
6 of ADUs through the website listed here. Next slide,  
7 please?

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

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

20 TOI ROBERTS: Thank you, Ms. Arigoni.

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

23 Lesli Gooch: Thank you very much, Toi, and thank you  
24 to the team from FHFA, and everyone who's joining today.  
25 We're thrilled that the FHFA is looking at the role of

1 factory-built housing to address the shortage of affordable  
2 housing in this country, and we're excited to participate  
3 today and share our views about the role of Accessory  
4 Dwelling Units as a part of this effort.

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

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

20       ADUs can also be used as extra living space at the  
21 primary residence. Many people can use it as a studio, a  
22 home, or office, or a space for the growing children, adult  
23 children. They provide a way to increase living space  
24 square footage without undertaking a major construction  
25 project.



1           One word of caution, though. It is critical that ADUs  
2 are constructed to a building code to ensure safety and  
3 durability. The ADUs that our members are constructing in  
4 the factory are built to the federal building code, the HUD  
5 Code -- which is called the HUD Code -- or constructed to  
6 the IRC. We believe that specifics about construction  
7 standards and installation must not be overlooked in efforts  
8 to expand housing supply. We believe in quality, safe, and  
9 resilient factory-built housing, and we encourage the GSEs  
10 and FHFA to take this into consideration as you look at  
11 expanding your role with ADUs.

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

22           I appreciate the comments by Mike Dawson of Freddie Mac  
23 and Mike Hernandez of Fannie Mae during today's discussion  
24 about the work of the Enterprises with respect to  
25 manufactured housing. Our housing offers value to consumers

1 because of the technological advancements and cost savings  
2 that are also associated with the factory-built process, and  
3 because of the efficiencies of the federal building codes.

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

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

24       We believe that Fannie and Freddie cannot be considered  
25 to meet their statutory duties without both a substantive

1 commitment to chattel loans and performance to match, and we  
2 believe that this conversation about ADUs falls within that  
3 conversation about personal property chattel loans. We  
4 strongly encourage FHFA to hold Fannie and Freddie  
5 accountable to meet their statutory requirement to serve  
6 manufactured housing.

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

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

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

1 homes as well.

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

4 TOI ROBERTS: Thank you, Ms. Gooch.

5 Our next speaker is Ms. Faith Bautista.

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

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

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

18 But these are some of the observations that we have.  
19 The appraisals don't always reflect an increase in value.  
20 No more change needed, but comfort from regulators. Not the  
21 CRA regulators, the safety and soundness regulators, that  
22 they are not going to view a high LTV loan to do an ADU as a  
23 high risk would be helpful.

24 Also guidance from CFPB that will view an ADU loan as  
25 meeting ATR rules if the prospective grant is sufficient to

1 cover the payments on the ADU loan would be helpful.

2 Looking at overall income and debt of the borrowers in  
3 household where they may be already stretched might  
4 disqualify some of them that it's a good loan for them. And  
5 also the cost and time of documenting this makes it more  
6 expensive to do a \$50,000 to \$150,000 that many borrowers  
7 want. So it can be done under existing rules, but done as  
8 now it makes the yoke heavier, and so harder and costlier to  
9 do these loans. This may be an area where the well  
10 intentioned CFPB rules hurt the people they are trying to  
11 help.

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

19 The construction loans are done with a lot of  
20 monitoring and work before a draw request on the loan is  
21 processed. The lender will have an inspector look at  
22 percent of completion to make sure that the loan funds are  
23 not being spent faster than the work is getting done and  
24 there will be no shortfall at the end. The lender also  
25 checks to make sure all contractors and subcontractors are

1 getting paid, and this takes a lot of time before the loan  
2 is made. The lender will look at the plans and cost  
3 estimates to see if they are reasonable, and if the loan  
4 plus borrower cash will cover it with some extra in reserve.  
5 It is something for the lenders to figure out how to do this  
6 in a more cost effective risk-focused way for these small  
7 loans. A \$50,000 and \$150,000 cannot reasonably bear  
8 \$10,000 to \$20,000 of review and inspection costs.

9 TOI ROBERTS: Less than a minute remaining.

10 FAITH BAUTISTA: So, you know, this is the one that's a  
11 problem for a borrower like me. The (indiscernible)\*\*  
12 0:32:26 the time and effort to get permits to the building  
13 inspectors to sign off on the work creates a lot of delays  
14 and a big effort on any project. So it really makes a big  
15 difference when the mayor started talking about it. It has  
16 to be the city's inspector and all those people that need to  
17 approve your ADU.

18 Thank you so much.

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

21 FAITH BAUTISTA: Bautista.

22 TOI ROBERTS: I'm sorry.

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

25 SHARYL SILVA: Hello, everyone. I'm Sharyl Silva from

1 Cal HFA, and we are very excited to announce a new program.  
2 It's something that we've never done before, and it is going  
3 to be a \$25,000 grant to help with the construction of an  
4 ADU.

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

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

17 So we look at low equity as having a CLTV greater than  
18 80 percent. So moderate income for us would be 150 percent  
19 AMI. So 150 percent AMI and 80 percent or greater CLTV will  
20 qualify. Or, if you are a moderate income person and you  
21 also are in a qualified census tract, you will qualify.

22 The home has to be owner occupied that you are building  
23 the ADU unit on, and the grant gets dispersed directly into  
24 the construction renovation escrow account. We did announce  
25 this program in mid-August, and it goes live on September

1 20th. We've had tons of feedback, lots of excitement. We  
2 have marketing materials on our website. We've reached out  
3 to several nonprofits and local and city, counties, to  
4 figure out ways that we can combine our programs with  
5 theirs. So if they have, you know, money to offer and we  
6 have money to offer, maybe we can combine them together so  
7 that the borrower can get as much as possible. And  
8 everything, our term sheet, and all of our information is on  
9 our website, which is calhfa.ca.gov.

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

12 TOI ROBERTS: Thank you, Ms. Silva.

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

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

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

19 ADUs are one important piece in the toolbox to address  
20 the severe housing shortage; however, by themselves, they  
21 are unlikely to be an adequate solution. We need to utilize  
22 other tools, such as streamlined approval and by rights  
23 zoning for duplexes, triplexes, and fourplexes, which, as  
24 they will demonstrate, can have a much larger impact in  
25 expanding supply than ADUs alone. We believe that modestly



1 increasing residential density around walkable commercial  
2 amenities could cut the Gordian Knot in zoning reform and  
3 add around two million new homes over a decade entirely to  
4 private enterprise.

5 In addressing the supply shortage, history has shown  
6 that heavy handed or one-size-fits-all federal government  
7 approaches must be avoided so as to reduce unintended  
8 consequences. What is fundamentally a local and state issue  
9 can and should be resolved at these levels. State and local  
10 solutions are moving in this direction with increasing  
11 momentum. Next slide, please? Can we go to the next slide,  
12 please?

13 Why are ADUs an important component of the loan, but  
14 they won't suffice? First, surveys indicated that you need  
15 to build two ADUs to add one unit of supply. That is  
16 because people use ADUs also as short-term rentals, or other  
17 purposes like extra space or spare rooms for guests. Next  
18 slide, please? Thank you.

19 ADUs are also attractive to largely childless singles  
20 or couples, but we need a broader set of homes that also  
21 appeal to larger household types. Next slide, please?

22 In California and other places, ADU permitting appears  
23 to have peaked for now, indicating that ADUs might fill only  
24 a small fraction of the supply shortfall. Next slide,  
25 please?

1           At the current pace, it will take a very long time for  
2 ADUs to meaningfully add to supply. Examples from Portland,  
3 Seattle, and Los Angeles show that it would take around 25  
4 to 80 years to add 10 percent to the existing supply at the  
5 current pace. Next slide, please?

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

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

23           Both boroughs are about equal in land area, they are  
24 equally landlocked with little extra space to develop, yet  
25 Palisades Park has grown tremendously. It has achieved this

1 entirely without government intervention by converting its  
2 one-unit housing stock to newer and more environmentally  
3 friendly duplexes. For example, Palisades Park experienced  
4 a 24 percent increase in its housing stock over the period  
5 from 2000 to 2013, while Leonia's was flat. Today,  
6 Palisades Park has twice the population of Leonia, a more  
7 vibrant commercial area, and lower taxes. Next slide,  
8 please?

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

15         The single-family zone contains almost three times as  
16 many units as the lowrise multifamily zone. However, since  
17 2000, the lowrise multifamily zone has added twice as many  
18 new units as the single family zone. In other words, the  
19 lowrise multifamily zone has added 35 percent to its housing  
20 stock, while the single-family zone has only added 7  
21 percent.

22         The price points of these new units are also quite  
23 telling. New homes in the single-family zone are largely  
24 McMansions that are valued at 40 to 50 percent price  
25 premiums over the existing stock. New (indiscernible)\*\*

1 0:40:28 are valued at the moderate 10 to 20 percent price  
2 premium over the existing stock in that zone. Next slide,  
3 please?

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

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

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

1 the entire nation. Next slide, please?

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

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

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

23 TOI ROBERTS: Thank you, Mr. Peter.

24 Our next speaker is Mr. Scott Bernstein. One moment  
25 for your slides. Mr. Bernstein? Mr. Scott Bernstein?

1 SCOTT BERNSTEIN. Can you hear me now?

2 TOI ROBERTS: Yes.

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

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

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

11 SCOTT BERNSTEIN: Yes?

12 TOI ROBERTS: Your microphone's not clear.

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

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

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

20 Cities have several hidden assets. The first one is  
21 underutilized lots. To put a number on what other people  
22 have said, there are currently 78.5 million single-family  
23 dwellings in the United States. Two thirds are on lots of  
24 less than half an acre, and one third on a half acre or  
25 more. The most common accessory structure is a garage or

1 carport, 85 percent of these. By far the most common  
2 accessory is housing for cars, not people. Next.

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

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

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

16 So the trend in U.S. households by persons per  
17 household shows a constant drop (indiscernible)\*\* 0:46:07 to  
18 60 percent of households with only one or two people in  
19 them, and yet we keep increasing the average size of a  
20 building per household getting built. Next, please?

21 So, as several people have said, despite sprawl, U.S.  
22 cities and towns are highly urbanized with walkable urban  
23 character, and cities have a walkable character, you know,  
24 within a 15-minute shed. They also have a transit-oriented  
25 shed where transit exists.

1           So (indiscernible)\*\* 0:46:48 and that's one of my  
2 messages here. Next slide.

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

10          So ADUs can increase density without (indiscernible)\*\*  
11 0:47:37 much in the way of new infrastructure costs. They're  
12 a form of missing middle housing which further  
13 (Indiscernible)\*\* 0:47:42. Next?

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

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



1 and adopted by HUD in their automated underwriting systems  
2 to identify the benefit of locating (indiscernible)\*\*  
3 0:49:02.

4 TOI ROBERTS: One minute remaining.

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

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

17 SCOTT BERNSTEIN: I will do that; thank you.

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

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

23 TOI ROBERTS: Yes.

24 SKIP SCHENKER: Good, good. Okay. So my name is Skip  
25 Schenker. I'm with Guaranteed Rate Affinity, and I've been

1 specializing in renovation loans for over 25 years. I've  
2 been fortunate to help many homeowners build accessory  
3 dwelling units on their homes, and so I just wanted to share  
4 the perspective of a loan originator on the street.

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

14 So one of the problems is the cost may be \$250 a square  
15 foot to build, but if they're building a 1,000 square foot  
16 ADU, it could cost \$250,000. But without the proper  
17 guidance from the FHFA for the appraiser, a lot of these  
18 appraisers are bringing the value in only an additional  
19 \$50,000 or \$100,000. So that's creating a gap of not having  
20 the values defined against using the FHA 203k loan or the  
21 HomeStyle Renovation Loan. So utilizing the GLA the same as  
22 the primary residence will give greater value, which will  
23 allow us to finance more homeowners wanting to build an ADU.

24 We can also consider income approach or the cost  
25 approach on the appraisal, but that's one of the main

1 challenges that we've had.

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

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

21 Also, one of the challenges that we've had is that  
22 Fannie Mae guidelines don't allow for separate utilities,  
23 and we think it's a good idea to allow separate utility  
24 meters for the ADU, because managing the utility expenses is  
25 easier if the party who's living in the ADU is actually

1 paying. They'll be, surely, more conscious of consuming  
2 electricity and gas and water if they have to pay for it  
3 themselves.

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

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

18 TOI ROBERTS: Thank you, Mr. Schenker.

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

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

22 TOI ROBERTS: Yes.

23 GRACE CURRID: Thank you. So I am with an independent  
24 mortgage banker, and so prior speakers, and I'm sure  
25 speakers after me will discuss the needs and why it's

1 important, which, clearly, we agree with. My objective is  
2 to provide a lenders perspective as to some of the  
3 challenges and concerns we have selling the loans in the  
4 secondary market. And I would echo a lot of what Skip said  
5 before me, but, certainly, I would agree with a lot of what  
6 he said, but just would like to add a few other points.

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

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

25       So, again, needing very specific guidelines and for the

1 lenders to use them -- we're all on the same playing field  
2 -- would be important.

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

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

18 Another restriction is that ADUs are not permitted on  
19 multi-family. Again, if you think about -- I'll speak in  
20 the New York area, the five boroughs -- I mean, every two-  
21 to four- has an ADU in the basement. It's, again, very  
22 common and customary, has been that way for many, many, many  
23 years, and if, in fact, something that seems an ADU, and it  
24 is a two- to four-family property, it is immediately  
25 ineligible.

1           And that also gets back to what's said at the  
2 beginning. What defines an ADU? So if you have a clear  
3 definition that everybody applies and says, well, this is  
4 not an ADU, then it doesn't matter, you know, what's going  
5 on at that point. But for the same reason, on single family  
6 it's the affordability factor. It's what's common and  
7 customary for the area, so that would be something I propose  
8 FHFA would revisit.

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

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

1 get the borrower affidavits.

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

6 TOI ROBERTS: Thank you, Ms. Currid.

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

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

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

21 So we talked to 10 to 20 clients a day or so, over the  
22 last three years -- oh, go back. The two questions are do  
23 ADUs create greater financial resiliency? And do ADUs make  
24 housing more affordable? You've gone over that. Go ahead,  
25 next slide.



1           Yes. The extra rent makes it affordable to buyers and  
2 also makes housing more affordable for every type of buyer  
3 or homeowner. Bottom line is where else can you buy or rent  
4 a \$200,000 new, custom-built home in California? And it's  
5 not only cheaper for the buyer, but it's cheaper for FHFA to  
6 subsidize, as compared to a \$700,000 typical San Diego or  
7 L.A. home. Next slide.

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

16           And clients, our clients are not wealthy people. They  
17 are retirees. Remember, most of the retirees today are  
18 young Baby Boomers who got caught in the middle of that  
19 switch from pensions to 401ks. They've paid off their  
20 homes, but they don't have a lot of retirement income.  
21 Also, caring for parents, multigenerational families, and  
22 first-time homebuyers. A first-time homebuyer as much can  
23 buy a duplex and have that extra rent, but they can also buy  
24 a single-family home, and, in California, and add an ADU and  
25 JADU for extra income.

1           My clientele matches what the Turner Center at Berkeley  
2 says as who is using this. Next slide.

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

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

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

24          Next challenge is investors are strictly limited with  
25 ADUs. Next slide. Why not allow investors to invest ADUs?

1 My research shows on this search of title and prospect data,  
2 only one percent of L.A. County single-family homes are  
3 owned by companies. Everything else, only 14 percent of  
4 single-family homes are non-owner occupied, but who are they  
5 owned? By individuals, family trusts, community property.  
6 Most of those are starter homes, and, if grandma wants to  
7 allow the grandkids to move into an ADU on her rental  
8 property, why would we treat her, necessarily, as an  
9 investor or something like that, when we can treat them as  
10 family?

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

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

21 We need to clarify in those guidelines that this does  
22 not apply to allowing new manufactured homes being added to  
23 the property as an ADU. It's a dumb glitch, but our Fannie  
24 Mae rep won't do it. Other lenders won't let them do it.  
25 And other lenders, their Fannie Mae rep says, yes, that's no

1 problem.

2 By the way, why do we care if it's attached or detached  
3 from the home? Shouldn't matter. Next slide.

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

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

21 Then -- next slide -- and as they go, as permits near  
22 completion, then we start the renovation loan -- next slide  
23 -- because you're not going to have rental income to pay for  
24 the extra. This reimburses those grants so the money goes  
25 back to the nonprofit -- next slide --

1 (Indiscernible)\*\* 1:07:00.

2 MEREDITH STOWERS: Go ahead. A new customer can now  
3 get those funds. The funds aren't sunk into the house,  
4 construction begins, and so on. Next slide, and then we  
5 finish up. Go ahead, next two slides.

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

13 Thank you for your time.

14 TOI ROBERTS: Thank you, Ms. Stowers.

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

17 UNKNOWN SPEAKER: You're muted.

18 TOI ROBERTS: I'm sorry.

19 FLORENTINE CHRISTIAN: Thank you. Thank you.

20 So I am Florentine Christian, founder and CEO of  
21 Sidekick Homes. We assist homeowners every step of the way  
22 through their ADU development process. We've assisted over  
23 200 property owners with their ADU needs, and so we  
24 literally are the boots on the ground. We are having  
25 one-on-one conversations with the homeowners who are wanting

1 to build these ADUs.

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

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

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

1 communities.

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

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

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

25       So let's talk about some of the obstacles that I am

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

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



1 that they may actually have in their home.

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

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

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

24 I will reiterate what some of our lender partners have  
25 spoken about. Appraisals are one of the biggest challenges

1 that we're facing. We're seeing situations -- I've seen it  
2 numerous times -- where homeowners have gotten a zero value  
3 for their ADU that they have spent a good chunk of change to  
4 build, or sometimes they're getting, maybe, a \$20 increase.

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

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

17 TOI ROBERTS: One more minute remaining.

18 FLORENTINE CHRISTIAN: Thank you.

19 Investors who are coming in with all cash have an  
20 advantage to purchasing properties with an ADU, because  
21 they're able to purchase without a appraisal contingency,  
22 whereas the homeowner who could really benefit from owning  
23 that ADU and having that extra unit space who has to go  
24 through the funding process, it's going to be less likely  
25 for that appraisal to come in, because of the issue we're

1 having with appraisals, and, therefore, sellers are more  
2 likely to give favor to an investor buyer versus a homeowner  
3 buyer, very much putting homeowners at a disadvantage in  
4 being able to get in on the benefits of these ADUs.

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

8 TOI ROBERTS: Thank you, Ms. Christian.

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

11 JOHN ANDERSON: Can you guys hear me okay?

12 TOI ROBERTS: Yes.

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

20 And I want to amplify what Meredith Stowers brought  
21 forward with the idea that is it so hard to think about this  
22 as a rental property, as a two-unit property? I think that  
23 the largest crisis we're seeing in ADU lending may not, in  
24 fact, be the guidelines from the Agencies, it may be an  
25 allergy or an inability to read the damn underwriting

1 guidance that's in place now. All the Enterprise outfits  
2 identify a residential loan as one to four units, actually  
3 one to four units plus up to 35 percent non-residential  
4 space if it's allowed under the zoning.

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

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

24 So the idea that somehow that can't be used as  
25 qualifying income for an ADU seems like a petty and,

1 frankly, stupid requirement.

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

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

17       In terms of defining ADUs, the International  
18 Residential Code and International Building Code define  
19 definition of a dwelling unit as a place of residence that  
20 also has permanent cooking facilities. It you were to add  
21 onto your house without a kitchen, that might be considered  
22 a guest suite, but it is part of the house. It's part of  
23 that dwelling unit. It's the presence of a stove or a  
24 cooktop installed in a countertop that amounts to permanent  
25 cooking facilities.

1           So I think that it would be reasonable to use the  
2 International Building Code as a standard for what is a  
3 dwelling unit, and an ADU is a dwelling unit somehow  
4 subordinate to the main unit, or it's a duplex allowed under  
5 local zoning and can't we just get on with it?

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

10          TOI ROBERTS: Thank you, Mr. Anderson.

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

13          STEVEN DIETZ: Thank you.

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

17          We represent about three percent of ADU permits pulled  
18 in L.A. this year. We'll build about five hundred units  
19 next year -- a little over a half of them are already under  
20 contract. And the way we work, which is what I'm going to  
21 speak to, is we use data in very deep ways to understand who  
22 to market to, where ADUs can fit, and I wanted to share some  
23 of the data, get away from the anecdote that a lot of the  
24 conversation around ADUs doesn't use hard facts. Next  
25 slide, please?

1           So first is just because you have space doesn't mean an  
2 ADU will fit. We've identified 233,000 parcels in the city  
3 of L.A. where an ADU would actually fit in the available  
4 space, if you remove an existing parking structure, or if it  
5 fits without. The interesting thing is that there's a 60-40  
6 split multi-family versus single-family, but if you look up  
7 the 11,900 building permits pulled for ADUs since the  
8 beginning of 2018, it's a 40-60 split the other way.  
9 There's actually reason for that we'll get to, which comes  
10 down to the availability of financing. But this is the  
11 first interesting thing is who's actually building. Next  
12 slide, please?

13           The other way to look at the data, again, at those  
14 11,000 odd building permits -- and keep in mind, these are  
15 permits that were pulled. We actually have the data for  
16 certificates of occupancy issued and they skew more  
17 aggressively than what this slide shows. But this  
18 concentration shows very clearly that the yellow line is  
19 multi-family. As the household income in the area  
20 increases, there's a slight increase in the tendency to pull  
21 permits for an ADU, but what's very interesting, and it  
22 speaks to basically the lack of availability of financing,  
23 is that lower-income households are pulling building permits  
24 at a much lower pace per thousand eligible parcels over this  
25 last four-year period than wealthier communities.

1           It comes down to a really simple fact. It's hard for  
2 lower-income people to finance. Next slide, please?

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

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

23           The corollary is who's unable to build, who's  
24 underrepresented. New to the property generally means high  
25 LTV. That's been a challenge; we've heard about that. I'm



1 going to give you some interesting numbers on the next  
2 slide.

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

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

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

22 So 62 percent of those 139 homeowners currently are  
23 over 43 percent DTI. As I said, in most cases, their  
24 incomes declined because they've retired, and their biggest  
25 stress is how do I continue to pay my mortgage and stay in

1 my home that I've already borrowed against when my income's  
2 declined.

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

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

17 Thanks very much.

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

22 BREAK.

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

1 Caliber Home Loans.

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

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

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

22 A considerable barrier to implementing more inclusive  
23 zoning, however, is access to finance for homeowners who  
24 cannot finance a new unit from their existing household  
25 income. They need the added revenue from the future unit to

1 be factored into underwriting to be able to borrow enough to  
2 build a unit.

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

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

18       Zoning reforms to allow small homes -- duplex, triplex,  
19 accessory dwelling units, granny flats, and carriage houses  
20 -- have swiftly demonstrated that they can expand home  
21 ownership, allow private builders to deliver low-cost  
22 ownership and rental housing, and restore greater equity and  
23 inclusion in all types of neighborhoods. Small home zoning  
24 reform is sweeping the U.S., effectively delivering more  
25 affordable homes, quickly, without public subsidy. Small

1 home represents 40 percent of new homes delivered in most of  
2 the largest U.S. cities.

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

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

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

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

2 Thank you very much for the time.

3 TOI ROBERTS: Thank you, Mr. Correa.

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

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

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

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

25 Across the Coalition it has been the consensus that

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

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

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

18 With that growth of Nashville and immediately  
19 surrounding areas, I think that ADUs would give people an  
20 opportunity to not have to live so far out, which helps with  
21 traffic and just gas, and money, and all these things placed  
22 together when you don't have something that's in the city.  
23 So you have an opportunity to live in the city when you  
24 couldn't previously in a standard rental. Those  
25 public/private partnerships that if we had the non-LIHTC

1 pilot that could happen allows these for-profit and  
2 non-profit developers to come together with networks and  
3 skills, CDFIs to find and subsidize more affordable housing,  
4 and these ADU projects are a great opportunity to realize  
5 those strategic partnerships.

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

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

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

23 Memphis has been home -- Memphis specifically in west  
24 Tennessee -- has been home to ADUs, and they've been called  
25 different things as we've all referenced on here. I,



1 personally, when I moved to Memphis after college, lived in  
2 my sister-in-law's ADU. That was absolutely fantastic,  
3 because it was her guest house and we were able to live  
4 there -- my now-husband and I -- were able to live there,  
5 and it was considerably cheaper. It allowed us to get our  
6 feet under us and really grow.

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

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

19 Thank you, all.

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

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

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

24 TOI ROBERTS: Yes.

25 REBECCA FROASS: Okay. Great. My name is Becky

1 Froass. I'm in the Housing Finance Department of the  
2 National Association of Home Builders, and I'm pleased to be  
3 here today. NAHB appreciates the opportunity to address  
4 this group of housing industry participants. So, thank you.

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

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

22 However, a growing number of locations in which  
23 affordable housing and available building sites are limited,  
24 and, or, prohibitively expensive, are loosening or  
25 eliminating these constraints as local officials seek

1 solutions to housing affordability and housing supply  
2 concerns in their jurisdictions. Some jurisdictions -- to  
3 name a few, Portland, Seattle, Los Angeles, and certainly  
4 others -- have made considerable progress in reducing or  
5 eliminating barriers to creating ADUs.

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

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

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

24 The most recent data NAHB has on ADUs was collected  
25 from a survey of our remodeler members in the first quarter

1 of 2019. Those results showed that in the previous 12  
2 months, which would have been 2018, 20 percent of remodelers  
3 undertook projects that created an ADU by converting an  
4 existing space, and 18 percent created an ADU by building a  
5 new addition.

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

15 TOI ROBERTS: One minute remaining.

16 REBECCA FROASS: What? One minute?

17 TOI ROBERTS: Uh-huh.

18 REBECCA FROASS: Oh, my goodness. All right.

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

25 So anyway, Fannie Mae and Freddie Mac have a key role

1 in supporting the ADU market. As we heard from Mike Dawson  
2 and Mike Hernandez, those Enterprises are looking at ways to  
3 provide this support and we're pleased that you're looking  
4 at changes to financing programs, because we think that  
5 financing is a critical aspect.

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

10 TOI ROBERTS: Thank you, Ms. Froass.

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

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

14 TOI ROBERTS: Yep.

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

22 Skip Schenker and Grace Currid both touched on some  
23 important lender issues that are going to directly overlap  
24 with my comments -- and I don't disagree -- but this will  
25 help a little bit from the appraiser's perspective.

1           My observation is that many of the market participants,  
2 including lenders, loan officers and underwriters, appraisal  
3 management companies, realtors, and some of my peer  
4 appraisers are not well versed in the current Fannie and  
5 Freddie policies regulating ADUs, or the lending on ADUs,  
6 and that their needs to be probably more robust policies if  
7 it's FHFA's intent to support the expanded use of ADUs. And  
8 I think Grace said that even if we didn't, we want some more  
9 clarifications.

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

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

22           So we have this third party between us that we're never  
23 sure what we get. And this is a little bit of a gripe from  
24 many appraisers, but I'll express it here, the current  
25 appraisal management company model tends to exacerbate the

1 situation. The AMC model primarily utilizes the lowest  
2 price and fastest bidder to award the assignment regardless  
3 of complexity, such as an ADU, that will generally require  
4 more analysis.

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

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

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

22 So, again, most appraisers just try to avoid these  
23 instead of dealing with it directly. So I guess more robust  
24 policy regulations around that, and training, so that the  
25 lenders -- I have many friends that are lenders, and they

1 don't understand the policies really. So more training so  
2 they understand exactly what they're looking for a loan on.  
3 Is it going to be a single-family with an ADU? Is it really  
4 a two- to four-, and what appraisal product are they going  
5 to need?

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

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

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

22 TOI ROBERTS: Thank you, Mr. Long.

23 Our next speaker is Ms. Catherine Duarte from the City  
24 of Colorado Springs. Give us a moment to upload your  
25 slides.



1           CATHERINE DUARTE: Hello. Can everyone hear me?

2           TOI ROBERTS: Yes.

3           CATHERINE DUARTE: Great. Well, first of all, thank  
4 you. I just want to thank the FHFA for the opportunity to  
5 share what our city's going through with regards to ADUs.

6           My name is Catherine Duarte, and I'm a Senior Analyst  
7 with the Community Development Division at the City of  
8 Colorado Springs, and we manage our city's housing and  
9 homeless entitlement funds from HUD, and we accomplish our  
10 goals through private nonprofits and developers. And the  
11 perspective I'd like to bring today is just the perspective  
12 from the entitlement community, from entitlement communities  
13 and how we have to navigate the systems, different federal  
14 systems, to help meet our affordable housing goals. Next  
15 slide, please?

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

1 Zones, and created an ADU overlay zone for new planned  
2 communities at the edges of our city.

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

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

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

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

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

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

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

1 well documented, and their prohibitive cost is also well  
2 documented.

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

7 We had a few things working against us, namely funding.  
8 Our funding toolbox is largely made up of Federal sources.  
9 LIHTC private activity bonds, or PABs, and utility  
10 incentives are really designed for multi-family building.  
11 They reward a higher number of units (indiscernible)\*\*  
12 1:56:31.

13 So we had to look at our HUD grants -- Okay. So where  
14 were we? So we had to look at our HUD grants. CBD and ESG  
15 were quickly discarded, disqualified, because we have broad  
16 regulatory exclusions. So this leaves HOME, and I won't go  
17 into, you know, the HUD's HOME program other than it, you  
18 know, covers new housing construction, rental assistance,  
19 community housing development organization, operational  
20 costs. So it feels like a good program that would kickstart  
21 new construction and sort of small scale projects, but over  
22 the last year we learned that the details in HOME's regs  
23 severely complicated our efforts at designing a program that  
24 is both compliant in the eyes of HUD and feasible on the  
25 local level.

1           The CHDO, or Community Housing Development Organization  
2 program, is geared towards developers and brings very  
3 burdensome predevelopment construction and loan requirements  
4 that are just not a good fit for single-family homeowners,  
5 or just individuals. And HOME has a promising precedent  
6 called the ECHO program, the Elder Cottage Housing  
7 Opportunity, but that's targeted at a very specific  
8 demographic -- older residents -- not designed to be a  
9 permanent unit -- they're modular. And the ADU form isn't  
10 compatible with our -- or, sorry, the ECHO form -- the  
11 modular units are just incompatible with our local ADU  
12 building standards. Single-unit owners are exempt from the  
13 Fair Housing Act, but it would be helpful to have some  
14 guidance of best practices for creating a transparent and  
15 equitable program.

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

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

23           Our next speaker is Mr. Kyle Smith, and can everyone  
24 else mute your phones? Thank you. Mr. Kyle Smith from the  
25 Metropolitan Mayors Caucus.

1 CALEB SMITH: Good afternoon. Can you hear me?

2 TOI ROBERTS: Yes.

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

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

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

22 Now the County of San Mateo has taken a number of steps  
23 to try to encourage more accessory dwelling unit production.  
24 Our partners have developed pre-approved ADU plans to make  
25 the planning process easier. We are offering free project

1 management assistance to some homeowners. We are having a  
2 robust public education effort. But although local  
3 government can do a lot to try to help homeowners take  
4 advantage of California's newly permissive ADU rules, local  
5 government can't finance the ADU revolution, which is why we  
6 look to our partners in the private sector to provide the  
7 mortgage financing and other kinds of loans to make that  
8 possible.

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

18 And I know we've talked a fair bit about ADUs as a form  
19 of affordable housing. In San Mateo County, based off of a  
20 recent rent study, 90 percent of ADUs are being rented at  
21 rates that are affordable to middle- or lower-income  
22 households in our county, without any kind of deed  
23 restriction, or without any kind of ongoing government  
24 subsidy -- which is what these really are, a powerful source  
25 of unsubsidized affordable housing in our community.

1           So I don't want you to read really too much into some  
2 of the other points that folks have made; however, I think  
3 it is worth pointing out that where we have seen the  
4 interesting experimentation done in the ADU loans, on the  
5 part of credit unions and such, has really been sort of when  
6 people have been able to hold onto portfolio loans. So it  
7 really is the actors and secondary markets, which seems to  
8 be a major barrier to really scaling this up.

9           And I also want to take a quick moment to address  
10 junior accessory dwelling units, which, in California, are  
11 small accessory dwelling units, typically that are, indeed,  
12 within an existing house, either by carving out a master  
13 bedroom, or, perhaps, something like a garage or a basement.  
14 These are sometimes less expensive to build, sometimes under  
15 \$100,000, which, in our county, is not as much as it would  
16 cost to build a detached ADU.

17           However, the fact that you're taking advantage of the  
18 existing space, well, very good from the perspective of  
19 urban design and in terms of keeping down costs. There  
20 sometimes isn't as much in the way of additional home value,  
21 which makes these units particularly difficult to finance,  
22 despite the fact that they're an especially good fit for  
23 populations such as older adults who want to age in place,  
24 or families with a disabled family member they're looking  
25 after who want to keep that in mind.



1           And we also see that accessory dwelling units are a  
2 good fit for a wide variety of families. We've heard from a  
3 number of other speakers, and a group that we haven't,  
4 perhaps, heard quite as much about is families with  
5 developmentally disabled children. We found in our county,  
6 accessory dwelling units are one good option for them, and  
7 that's something that we're certainly trying to help  
8 encourage more of.

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

20           And then also, one quick note from a local government  
21 perspective, is that the rules around separate addresses for  
22 ADU can be a particular wrinkle. I do know of local  
23 governments which sometimes require that new ADUs have a  
24 separate address. However, that varies based on city, so,  
25 if the rules for underwriting can be tweaked so that that's

1 no longer something that would prevent a loan, then that  
2 would be helpful, because your ability to qualify for a loan  
3 should depend on the strength of the underlying loan, not  
4 based on the quirks of the local planning department.

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

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

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

25 CASEY KLEINHENZ: Thanks for having me. It's the

1 Community Development Corporation Bentonville/Bella Vista;  
2 it's in northwest Arkansas. Our organization recently  
3 completed the Briartown Cottage project, and this is a  
4 demonstration project where we constructed a court of four  
5 cottages designed in the style of an ADU. We used the  
6 project to drive conversations with local planning  
7 departments, lenders, and homeowners interested in building  
8 ADUs.

9 After the marketing and outreach initiative, the  
10 cottages will rent under 60 percent AMI rent income  
11 restrictions. You can download our cottage plans at  
12 [briartowncottages.com](http://briartowncottages.com). They're there, open source, no  
13 charge. Check 'em out. [briartowncottages.com](http://briartowncottages.com).

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

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

25 I've appreciated everyone's expert comments. Thanks

1 for your time.

2 TOI ROBERTS: Thank you, Mr. Kleinhenz.

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

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

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

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

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

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

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

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

24 And there's been quite a bit on financing, so I don't  
25 think that I'm going to touch on that as much. I want to

1 talk about a couple of other things that we think might be  
2 unique to our region.

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

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

15 The other issue that we learned with ADUs that I think  
16 is also very important is that to others no one size fits  
17 all for land use context. As it's sometimes discussed in  
18 planning literature, the ADU is a fully detached home on the  
19 bearer of the property, which may make sense in those  
20 communities that have alleys or lot configurations where the  
21 utility costs for hookups are relatively minor. But other  
22 newer growth communities do not necessarily have the fire  
23 access or lot configuration to be able to add a detached  
24 unit without it being an immense cost to the homeowner, you  
25 know, one hundred, two hundred grand, which for all but the

1 most equity rich homeowners would be a big barrier for them.

2 And in those cases, those same dwelling units have  
3 garages or walkout easements where housing units can be  
4 added much more cheaply. And, you know, among our members,  
5 we just find a wide divergence in the kinds of ADUs that  
6 would be both cost effective, in terms of the infrastructure  
7 costs, as well as supported within local leadership for  
8 their urban form, etcetera.

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

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

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

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

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

1           TOI ROBERTS: We can hear you.

2           HAZEL BORYS: Okay. Perfect. Thank you.

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

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

16           So I'd like to just look at 3 of those 22 actions that  
17 apply to our topic today, and the first one is to allow  
18 in-home occupations, because many local governments -- like  
19 we've already heard -- do have zoning and subdivision  
20 regulations on the books today that do allow ADUs; however,  
21 they frequently aren't utilized, certainly not to their  
22 greatest extent, because of these challenges. So many local  
23 governments have some type of home business permitted, but  
24 often with limitations on the number of employees, along  
25 with high parking requirements and restricted signage.



1           So, if instead we allowed in-home occupation to enable  
2 a work from home without permitting and then reassessing  
3 area restrictions and existing regulations to accommodate  
4 the social distancing requirement as we recover from the  
5 pandemic is an important topic. Next slide, please?

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

23           In addition to ADUs, I think we should also be talking  
24 ACUs, or Accessory Commercial Units that we can make viable  
25 once again with a code amendment to zoning, so the accessory

1 commercial units that allow homeowners to have that  
2 additional income, but this time the home is in the back of  
3 this picture and the commercial in the front, so, once  
4 again, we could change that by revising regulations to  
5 permit mixed use, reducing front setbacks, and requiring  
6 sidewalk minimum widths where possible. Next slide, please?

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

17 All it started with was the then Planning Director,  
18 Rick Bernhardt, changed three sentences within an existing  
19 zoning regulation, which is for the walkable streets, making  
20 the buildings have build-to ranges instead of setbacks,  
21 requiring a minimum percentage blazing on the first floor,  
22 and requiring parking to be on the street or behind a  
23 building. So it doesn't have to have a holistic zoning  
24 rewrite like [codestudy.org](http://codestudy.org) showcases; these are holistic  
25 zoning rewrites.

1           But, instead, just a simple text amendment to get us to  
2 where we're needing to go, and so many cities think of  
3 zoning as this extensive, long-term initiative, and to do it  
4 holistically in a way that has the sort of value capture  
5 that form-based codes do have. It certainly does take more  
6 time and dollars, but these faster initiatives are super  
7 important to today's conversation -- next slide, please --  
8 which are purely just zoning text amendments.

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

15           TOI ROBERTS: One minute remaining.

16           HAZEL BORYS: Thank you. Next slide, please?

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

23           Codescore -- which is a different website -- dot org  
24 looks at the payback to local governments and private  
25 individuals who are making these changes. These are the

1 paybacks to people. Next slide, please?

2 And next the paybacks to reducing our greenhouse gas  
3 emissions -- next slide, please -- and protecting our  
4 waterways. And then the payback to our value capture on the  
5 private side and on the public side. You can look at all  
6 these in greater detail on [curbscore.org](http://curbscore.org), along with 135  
7 case studies to back them up. Next slide, please?

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

12 TOI ROBERTS: Thank you, Ms. Borys.

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

15 MARCEL NEGRET: Hello. Can you hear me?

16 TOI ROBERTS: Yes.

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

23 More than half of homes in the United States are  
24 currently selling above list price. The Case-Schiller U.S.  
25 National Home Price Index has been steadily increasing over

1 the past decade and has been growing even more rapidly  
2 throughout the pandemic. The housing market of the  
3 Tri-State Region has experienced very similar patterns.  
4 Throughout the previous decade and leading up to the  
5 pandemic suburbs were building less housing, especially in  
6 southwestern Connecticut, Long Island, and the Hudson  
7 Valley. These places were also accommodating less of the  
8 metro areas' overall population, economic, and housing  
9 growth.

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

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

22 The Tri-State Region is one of the most segregated  
23 parts of the United States and has some of the highest  
24 levels of income inequality. This is the result of  
25 cumulative policy positions over multiple generations that

1 made segregation and allowed market forces to produce  
2 segregated city neighborhoods and suburbs. Federal policies  
3 pre- and post-World War II influenced financial systems, and  
4 local approaches to land use control show us how segregation  
5 proliferated, and later normalized, within our region. We  
6 must learn from these past choices and do better.

7 Government action can help ensure that neighborhoods are  
8 healthier, socially integrated, and more prosperous, as well  
9 as affordable.

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

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

1 stations with easy access to jobs and business centers.

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

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

24 Together with our coalition partners, these  
25 recommendations have helped shape policy within the region.

1 Earlier this summer, in Connecticut, Governor Ned Lamont  
2 legalized ADUs statewide. Last year New York state  
3 introduced a bill that will go beyond legalizing ADUs  
4 statewide and would offer technical and financial  
5 assistance. This is called the New York State Accessory  
6 Homes Enabling Act, and we expect that it will be fully  
7 approved later this year.

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

18 The recently announced federal agency policies are more  
19 than welcome, in particular those that will create new  
20 funding mechanisms and leverage federal funding to spur  
21 state and local actions. These are profoundly in line with  
22 RPA's recommendations. The federal government must ensure  
23 that expansions made through financing through Freddie Mac,  
24 as well as updates to Fannie Mae's and the Federal Housing  
25 Administration's existing policies are set up to support the



1 creation of ADUs and conversions, and in coordination with  
2 state and local governments. Equally important will be how  
3 the government agencies leverage federal funding to spur  
4 state and local action and promote comprehensive planning.  
5 HUD's flood grant funding and the support provided by the  
6 Office of Community Planning and Development will be key to  
7 addressing many of these issues.

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

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

15 TOI ROBERTS: Thank you, Mr. Negret.

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

18 NICHOL DEHMER. Hi, I'm Nicol. I'm with YardHomes  
19 Minnesota. We are a accessory dwelling unit company located  
20 in St. Paul, Minnesota. Many people have had their eyes on  
21 the Minneapolis/St. Paul marketplace as Minneapolis up-zoned  
22 their entire single-family code in the last 24 months. Even  
23 though we've seen an up-zoning to the 2040 plan, we haven't  
24 seen that articulated out in many ordinance changes quite  
25 yet. We're optimistic that those changes will come;

1    however, I wanted to share with you some of what we see  
2    happening in the ADU space.

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

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

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

1 their regulators.

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

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

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

23 And then, thirdly, I want to share a program that we  
24 have created at YardHomes where we have 38 units that are in  
25 the pipeline to be distributed under our Y-HELP program,

1 which is a program where we actually fund the ADU to an  
2 individual or a nonprofit that would like an ADU in their  
3 backyard, as long as they agree that they would house  
4 somebody that is on a voucher, either a Veterans voucher or  
5 a Section 8 voucher, or a youth homeless voucher. Over a  
6 period of 10 years, at the end of 10 years, we'll deed that  
7 structure over to the land owner.

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

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

20 TOI ROBERTS: Thank you, Ms. Dehmer.

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

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

24 TOI ROBERTS: Yeah.

25 ROBINSON MARKUS: Great. Hi there, everyone. Good to

1 see a few familiar faces on here. My name is Robby Markus.  
2 I'm a worker, owner, and Vice President of the Evanston  
3 Development Coop, or EDC, and, similar to a lot of folks  
4 here, I'm speaking to respectively encourage the FHFA, along  
5 with the GSEs, to identify and implement, essentially, a  
6 secondary market, financing solutions, which convince  
7 lenders to really get involve and dive into accessory  
8 dwelling units, especially finding ways -- as I think the  
9 individual at United Dwellings said -- to make this work for  
10 moderate-income and middle-income homeowners.

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

20 Similar to Nichol at YardHomes, we also utilize  
21 structurally inflated panels. We build all electric units  
22 from a climate action perspective. We currently have ten  
23 activate ADU projects under contract at various stages of  
24 design and construction; nine are in Evanston, one is in  
25 Chicago.

1           The price point for these units really depends on the  
2 type of accessory dwelling unit, as well as the needs of the  
3 particular client. You know, we have an internal basement  
4 ADU under \$150,000. We have a commercial kitchen that will  
5 be certified by the Illinois Department of Health that is  
6 closer to \$300,000.

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

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

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

1 living.

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

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

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

25           We have found that most regional banks are willing to

1 do a home equity line of credit for an accessory dwelling  
2 unit, though; given that, I believe the bank's portfolio,  
3 these loans, the underwriting standards, and the credit  
4 score requirements are strict.

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

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

25 Either way we think a clear note in some capacity to



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

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

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

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

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

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

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

23 In California, SB-9, which has not yet been signed by  
24 the governor, but hopefully he'll sign that as soon as he  
25 defeats the recall initiative, would propose to allow

1 splitting any residential lot in two and then to allow a  
2 duplex, or a main house plus an ADU on each specially  
3 created lot. And so that opens up a whole universe, which,  
4 going back to John Anderson's comments of possibilities to  
5 have two homes on the same lot and what do you call that, a  
6 main home plus an ADU, or just a duplex? I'm not sure  
7 should really matter to the underwriting community. Let's  
8 go to the next slide, please?

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

19 So in addition to increasing the supply of housing what  
20 other policy goals should the Enterprises consider when  
21 thinking about ADUs, such as supporting home ownership or  
22 using rental income to build wealth, or supporting  
23 intergenerational households, or in enabling seniors to stay  
24 in their homes, or other goals, one thing that I'd like to  
25 interject as a possibility for ADUs as new construction to

1 enable gray water irrigated drought resistant trees and  
2 shrubs to have to be planted and have their growth  
3 supercharged to more quickly deliver a mature landscaping  
4 for the increasingly important common outdoor areas that  
5 will be more shared and more used with an ADU on the  
6 property.

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

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

21       So the major barriers to ADUs, again, the answers to  
22 this question are largely local, except for access to  
23 finance, and access to finance is inequitable. If you have  
24 it you can get it and if you don't you can't. So FHFA needs  
25 to work with neighbor and scale cooperatives to change this

1 and provide equal access to the benefits of ownership and  
2 affordable occupant owned rentals. Next slide, please?

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

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

21       So ADUs are often added to existing homes, but they  
22 could also be built as part of a new development. To what  
23 extent is there interest in including ADUs with new homes  
24 amongst the builder/developer community? Short answer is,  
25 yes, there is interest, and where it's legal it happens. I

1 can point to half a dozen new developments in my own  
2 neighborhood here at Portland that have included a new main  
3 home as well as a new attached ADU, usually in the basement.  
4 If the zoning act produced more units, then thus, in theory,  
5 more income.

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

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

24 What funding sources are commonly used to build ADUs?  
25 So home equity lines of credit, cash out refinance, and cash

1 from the sale of another property, I would say, are the  
2 three most common financing forms, and that's because  
3 there's not a conventional financing pathway that really  
4 makes sense that's largely available. Next slide, please?

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

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

15 TOI ROBERTS: One minute remaining.

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

24 Finally, are there other concerns associated with ADUs  
25 that the Enterprises should be aware of? Only if your

1 concerns are preserving racial segregation and a system that  
2 is rigged to further enrich the one percent. But, if your  
3 goal is equitable access to finance, no, there are not other  
4 concerns.

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

6 TOI ROBERTS: Thank you, Mr. Woodsong.

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

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

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

20 So the Family Housing Fund sees ADUs as one important  
21 tool in our toolkit to address the shortage of affordable  
22 housing in our Minneapolis/St. Paul region. We looked at  
23 this with the perspective that if ADUs became common  
24 throughout our seven county metropolitan region, as they are  
25 in, say, Portland, Oregon, which is about 1.5 percent of all

1 single-family homes, we could create 11,000 new homes  
2 developed by entirely new development actors in our housing  
3 system. And that is a substantial portion of the new homes  
4 that we need, especially in the type of one-bedroom  
5 household category in our region in the next couple of  
6 years. But, to date, the actual number of ADUs developed in  
7 our region is only around 300, probably less than that.

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

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

23 And to encourage ADU development outside of our core  
24 cities and more suburban areas we're launching a new design  
25 idea book this fall. It'll have its design ideas specific



1 to mid-century and inner-ring suburban housing forms in  
2 those neighborhoods and in suburban communities that don't  
3 many ADUs historically.

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

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

21 Locally we have the Minneapolis City of Lakes Community  
22 Land Trust. They're a national leader innovating affordable  
23 development that includes ADUs. They have built several  
24 projects where an additional one-bedroom ADU can be attached  
25 to a newly built single-family home for a marginal cost

1 increase of only about \$40,000. So that's a one-bedroom  
2 unit that is added to our housing system, versus spending  
3 three hundred thousand or so, for a brand new housing tax  
4 credit unit.

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

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

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

24 So with all of that work in mind, I really encourage  
25 the FHFA and other partners here to bring attention to

1 financing barriers, including appraisal practices, and  
2 support adoption of emerging best practices for appraisals  
3 and evaluations, to encourage incentivizing CDFIs and  
4 community banks, and state housing finance agencies, to  
5 innovate in products that can underwrite future income  
6 streams.

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

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

21         Another partner, Minnesota Home Ownership Center, which  
22 coordinates statewide home ownership advising networks,  
23 they've developed a one-hour self-directed online training  
24 program for owner occupant landlords to prepare homebuyers  
25 who are considering buying a small multi-family property,

1 and encourage them to get connected to the resources needed  
2 to make that successful.

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

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

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

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

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

25 So I'm coming from Wheel Pad. We are a small but

1   mighty Vermont based company. We manufacture accessory  
2   dwelling units specifically that make any property a  
3   universally accessible place. It's a modular unit and the  
4   folks that we work with are trying to make their properties  
5   suite their needs, because maybe they've recently gotten  
6   into a car accident, and they need a place to recover, like  
7   at home. Or they want to move in with a friend, you know,  
8   all the reasons that folks have accessory dwelling units.

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

19           In Vermont we have the Independent Fund through  
20   Opportunities Credit Union, which is available to any  
21   Vermonter who wants to finance the assistive technology that  
22   they need to make a successful go at life, right? And they  
23   saw the potential of our product as an accessory dwelling  
24   unit, and they expanded that fund to cover our products, and  
25   installation of our products.

1           That being said, we kind of had to Trojan Horse  
2 ourselves into the financing market, and, gosh, it would  
3 have been a whole lot easier if, you know, these changes  
4 that folks have talked about today were implemented in such  
5 a way that people wouldn't have to think, oh, gosh, like how  
6 could I potentially finance an addition like this? How  
7 could I potentially finance a way for my mom to come home  
8 and live with me as opposed to, you know, go live in an  
9 assisted living facility, or something along those lines?

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

21           So I'll end with that. I'd love to keep this  
22 conversation going. I'm going to highlight the Google  
23 groups that Garlynn has put in the chat. You know, I threw  
24 my contact information in there. I'm always happy to chat  
25 with the rest of the folks on this call. And thanks so much

1 to the FHFA for putting this all together. Have a great  
2 day.

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

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

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

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

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

1 creating work force housing and developing the work force.  
2 As a result of our summit with the National Minority  
3 Community Reinvestment Cooperative, we formed the California  
4 Minority Builders Coalition and the local CRA Leadership  
5 Council to continue the work that was discussed on the  
6 national level here in California.

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

17 Some of the things that I would like to talk about you  
18 have already mentioned, and a lot of the components that  
19 were mentioned in the session are some of the components  
20 that we are utilizing within our organization, working with  
21 the California Minority Builders Coalition, and the local  
22 CRA Leadership Council. I want to read a little excerpt  
23 from the Grand Rapids Business Journal regarding PNC's  
24 recent acquisition of BBVA here in California, which is a  
25 very good opportunity for local minority small businesses



1 and nonprofits to engage with their local CRA regulated  
2 banks, because of the movement that is going on nationally,  
3 and locally here in California, with respect to making  
4 working capital available to minority small businesses and  
5 nonprofits for the purposes of work force development and  
6 work force housing.

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

19 So what this does is it provides us an opportunity to  
20 work with our local CRA regulated banks, not just PNC/BBVA,  
21 but other CRA regulated banks, to work with them on creating  
22 new markets or new products to address these issues that are  
23 emerging. Such as the ADU market, which has been an  
24 extremely busy market here in California. One of the most  
25 surprising things that I have experienced in my work with

1 ADUs is housing market has not seemed to have been affected  
2 at all by the COVID-19. I have seen a lot of other  
3 industries in the minority low- to moderate-income household  
4 sectors that have just completely fell out of the economy,  
5 small businesses, minorities who work for service based  
6 companies who have just gone under, upside down, because of  
7 their lack of income and ability to make enough money to  
8 stay in business and, or, to stay in their homes.

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

18 And so one of the things that I would like to talk  
19 about is how we can include the private -- or the public  
20 sector -- in the private sector lending arena and try to  
21 mitigate risk. One of the things that I have noticed in my  
22 negotiations with PNC -- and, by the way, we have already  
23 started our negotiations with PNC/BBVA, and given this  
24 announcement of the 88 billion dollar commitment it's going  
25 to open up a lot of doors for opportunity for us to create a

1 dialogue on how can we create new underwrite expanders.

2 Perhaps this would be a good topic; in fact, is what  
3 we're talking about now, which is how do we include or  
4 create flexible underwriting standards that are acceptable  
5 in the secondary mortgage market? And how can we use the  
6 public sector to mitigate risk to the private sector?  
7 Because in the public sector we have a little bit more  
8 flexibility with respect to how we lend money.

9 My background is in redevelopment, so we used to do a  
10 lot of loans --

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

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

22 The other thing that we can do is we can kind of create  
23 flexible, affordable housing covenants that go with the  
24 subsidies, that will mitigate the risk on private side.

25 So I want to thank everyone for everything that has

1 been said here, because this is going to give me more  
2 information, our team, the CMBC, the California Minority  
3 Builders Coalition, more ammunition to negotiate new  
4 products and create new products, lending products, on the  
5 private side, and then use the public side to help create  
6 credit enhancers to make it more doable.

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

12 TOI ROBERTS: Thank you, Mr. Serrano.

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

15 RAFAEL PEREZ: Hello. Thank you for having us here  
16 today. I'm Rafael Perez. I'm a board member with the  
17 Casita Coalition based out of California, and we're a  
18 nonprofit whose focus is really on supporting small housing  
19 as a solution to some of the issues that continue to come up  
20 with our nation's housing crisis. Specifically around ADU,  
21 and Casita Coalition was really instrumental here in  
22 California in really just helping tip over that first domino  
23 when it comes to ADUs, and that was really helping clear  
24 some of the regulatory red tape that existed for actually  
25 building the ADUs, which, year over year, has resulted in an

1 ongoing increase of the amount of ADUs that are being built.

2       You know, obviously, to build those the people who were  
3 first in line tended to be those with access to capital,  
4 which was either cash or equity where they could borrow from  
5 the equity in their home in a regular cash out type  
6 refinance, equity line of credit, or they just had the  
7 capital liquid to play to use on their property. If you  
8 look across the state, those that are building ADUs tend to  
9 be those with access to capital.

10       So really the question then becomes how can ADUs and  
11 other small types of housing, including multi-family  
12 options, become more accessible to communities of concern.  
13 And, you know, the one thing that we've found -- I co-chair  
14 our finance committee for the Casita Coalition -- is if we  
15 really had to find what is the -- it's being cliché -- what  
16 is the silver bullet that would really solve the access to  
17 capital issue. Time and time again we continue to see that  
18 it's the ability to include the potential rent on a future  
19 unit as qualifying income. And I think that when we see  
20 that being able to be factored into the qualification, much  
21 like an FHA 203k type renovation loan would allow, you know,  
22 future income on a second unit duplex, if the similar  
23 treatment were given to future income on an accessory  
24 unit -- which at the end of the day the final product is  
25 virtually the same as the multi-unit property in many

1 cases -- that slight shift in allowing that potential rent  
2 to be used as qualifying income would really be a game  
3 changer. Not just in allowing people to purchase a property  
4 and build an ADU in the purchase process, but also for  
5 listing homeowners who may not have a ton of equity, you  
6 know, to be able to use both the future value of the  
7 finished product, like most renovation programs account for,  
8 but also the potential rental income, especially in today's  
9 renting environment with the low cost of money.

10 Time and time again, especially in high cost markets  
11 like California, we continue to see that the cost of  
12 borrowing is far offset by the potential income stream that  
13 that unit creates, and it really gets two key points that  
14 are just critical in solving some of our nation's housing  
15 problems. One is affordable housing by nature. These small  
16 units are a naturally occurring form of affordable housing.  
17 But also housing affordability, particularly in communities  
18 of concern where people often are stretched out to be able  
19 to qualify and afford to purchase a home and become  
20 homeowners. Having this income stream, especially if it  
21 were to be able to be used to be qualifying income, would  
22 truly be the game changer that may take people who are just  
23 shy of home ownership and put them not into the space of  
24 home ownership, but put them into the space of affordable  
25 home ownership.

1           So we really think that the ability to use the  
2 potential future rents in qualifying income is key, and we  
3 have had, you know, discussions with other agencies about  
4 this, including the CFPB, and we hope that it will also look  
5 at that as an important piece, not a whole new, innovative,  
6 brand new product. These renovation programs are already  
7 existing. It's just the ability to be able to consider the  
8 rent potential of it, just like it's possible on multi-unit  
9 buildings that are currently vacant and want to use a rent  
10 survey to do that. The potential rent is a quantifiable,  
11 measurable number for qualification purposes.

12           So, you know, we think that that one issue alone, far  
13 and above all the other issues, is one that could really be  
14 a game changer, could really shift the paradigm as to how  
15 people become homeowners, how they manage home ownership,  
16 how they look at multigenerational housing, especially in  
17 high cost states like California where people are either on  
18 the beginning of their home ownership journey straight out  
19 of college with lots of debt, or in their later years. This  
20 is just one more solution that's going to provide these  
21 multigenerational opportunities for families to build  
22 wealth, to create affordable housing, to create housing  
23 affordability. And I think that the timing is critical  
24 right now at this moment in history when access to capital  
25 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 at 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



1 regulation is designed, and what financing mechanisms are  
2 available determine what impact they will have on equity.  
3 While many studies have enacted laws allowing for ADU  
4 construction, some of these regulations serve to reinforce  
5 racial and income inequities rather than reduce them. And  
6 some make adding an ADU too burdensome all together.

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

20 Additionally, the extent to which ADUs affect the  
21 overall supply and affordability of a housing market depends  
22 on the degree of demand for such units and the ease of  
23 creation, those elements determined, in part, by the zoning  
24 code and planning department's partnership with local social  
25 and financing organizations. Research suggests that ADUs

1 offer promise for improving affordability and supply at a  
2 critical segment of the market. Given their high costs to  
3 construct for home owners, most ADUs rent at a higher rate  
4 per square foot, but their smaller size means total monthly  
5 rent levels are lower than larger apartments.

6 Additionally, homeowners often rent ADUs to family or  
7 friends at below market rates. However, even when renting  
8 to strangers, one study found that ADUs rented for six  
9 percent less than non-secondary units. According to a study  
10 in Oregon, 13 percent of ADUs were rented for no money, and  
11 7 percent were rented for \$500 or less. Another study in  
12 Alberta, Canada, found that 25 percent of ADUs were rented  
13 for less than \$500.

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

22 While incentivizing ADU developments for very low  
23 income renters may be beneficial in some cases, in some  
24 instances income restrictions can be counterproductive. Kol  
25 Peterson, a prominent ADU advocate, stated that because

1 there are already so many financial and regulatory barriers  
2 for first-time ADU developers, affordability standards  
3 should be incentivized or subsidized rather than mandated.

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

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

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

25       So due to the racial wealth gap in this country, all of

1 this means that white, non-Hispanic families are more likely  
2 to benefit from ADUs since they're more likely to own a home  
3 and more likely to have savings that can support the  
4 development of an ADU.

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

12 TOI ROBERTS: One minute remaining.

13 CHRISTINA STACY: I'm sorry?

14 TOI ROBERTS: One minute remaining.

15 CHRISTINA STACY: Okay. Thanks.

16 Providing financing mechanisms that reduce the cost of  
17 developing an ADU can help with the affordability challenge  
18 more directly by allowing ADUs to be rented at cheaper rates  
19 and creating additional financing mechanisms to help  
20 families with low levels of wealth develop ADUs can help to  
21 adjust the racial wealth gap in our nation. Addressing  
22 these disparities is really an imperative for our leaders,  
23 since many of the inequities in our country were directly  
24 caused or exacerbated by racist federal, state, and local  
25 policies and program.

1           As Richard Rothstein put it in *The Color of Law*, to  
2 begin to address this history we will first have to  
3 contemplate what we have collectively done, and on behalf of  
4 our government accept responsibility. Our country's current  
5 focus on racial justice and inclusive recovery provides us a  
6 window of opportunity to change the wealth and equality  
7 trajectory and address the policies that created these  
8 inequities. While ADUs are just a small drop in this  
9 bucket, ensuring that they are designed and implemented in  
10 an equitable manner, and that there are financing mechanisms  
11 that allow families with low wealth to benefit from them are  
12 a step in the right direction. Thank you.

13           TOI ROBERTS: Thank you, Ms. Stacy.

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

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

19           TOI ROBERTS: Yes.

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

1 area.

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

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

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

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

23 Now when it comes to valuing ADUs there is no magical  
24 one-size-fits-all approach. The appraiser uses three  
25 primary approaches to value. Now the cost approach can

1 sometimes overstate the contributory value of the ADU. Cost  
2 does not always equal value. The improvements may be what  
3 we call in the business a super adequacy. Kind of a fancy  
4 word, a super adequacy. It basically means that it  
5 contributes value, but it may not return value dollar for  
6 dollar. Now, of course, this does vary by marketplace.

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

19 So the last approach, the major one, the sales  
20 comparison approach, that's the one that most of us on this  
21 listening call are familiar with. That involves using  
22 comparables. The sales comparison approach is often called  
23 the gold standard, because at the end of the day we need to  
24 see what the market will do when a home with an ADU goes on  
25 sale and how much it will sell for.

1 I've been slowly doing that as a side project and in my  
2 professional practice. One previous participant stated that  
3 they've been having the appraiser include the ADU as a  
4 primary living area. But the question becomes does the  
5 market recognize the ADU as a primary living area, or does  
6 it see it as an auxiliary space, thereby showing a discount?

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

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

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

24 Data may be scarce in some markets, especially those  
25 where ADUs are entering the housing supply, so I recommend



1 the sponsorship of case studies in various marketplaces by  
2 leading appraisers in the space. A series of FHFA case  
3 studies could produce a broader statistically valid approach  
4 that appraisers could reference in their reports if their  
5 markets have little local data to rely on. Now these  
6 studies may cost tens of thousands to, perhaps, fifty  
7 thousand per major metro area, but I think it would be worth  
8 it.

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

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

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

25 This now brings us to the end of today's session on the

1 use of accessory dwelling units to increase housing supply.  
2 Thank you, all, again for your comments and supporting us  
3 today. We really appreciate and value your feedback.  
4 Please, visit our website at [www.fhfa.gov](http://www.fhfa.gov) to learn more  
5 about accessory dwelling units.