Reverse Mortgage for an Accessory Dwelling Unit

(The Invisible ADU Opportunity)

Reverse Mortgages and Accessory Dwelling Units (ADUs) are a great match that has been almost completely overlooked.

I am not aware of formal survey data on this, but several ADU contractors have told me that the overwhelming majority of their clients are age 55 or older.

That creates a natural opportunity: Many older homeowners want to build ADUs, and Reverse Mortgages can provide a very strategic way to finance them. Yet very few homeowners and ADU contractors are even aware that this option exists. We have started referring to this as "*The Invisible ADU Opportunity.*"

Some seniors want to live in the ADU rather than the primary residence. While many Reverse Mortgage lenders require the borrower to occupy the primary residence, we offer HECM and proprietary options that allow the borrower to occupy the ADU if that is their preference.

When it comes to seniors and Accessory Dwelling Units (ADUs) there are three key questions:

1) Why seniors build ADUs.
2) Why a Reverse Mortgage can be an advantageous way to finance it.
3) Which Reverse Mortgage product may be the best fit for this purpose.

Why Seniors Need ADUs	
Multi-Generational Living	Stay in their home with family nearby for support, or move into the ADU and allow family to live in the larger house.

Helping Family with Housing Affordability	Provide family members with a safe, more affordable place to live.
Supporting Family with Health Needs	Create nearby housing for parents, siblings, relatives, or friends who may need some assistance.
Aging-in-Place Design	Design an ADU for aging-in-place needs, potentially avoiding the cost of retrofitting the existing home.
Living Closer to Family	Live near children and/or grandchildren while maintaining separate, independent living spaces.
Rental Income	Generate rental income to supplement monthly cash flow.
Accommodating Visiting Family and Friends	Give visiting family and friends a private, comfortable place to stay.

Advantages of Using a Reverse Mortgage to Finance an ADU	
No Required Monthly Payments	Monthly mortgage payments are optional on Reverse Mortgage products.
Construction Flexibility	Since the loan is done on the existing house prior to the construction, there are no lender restrictions on the ADU design and/or construction type.
Simpler Than a Construction Loan	Funds are available before construction begins. The lender does not manage construction documents, inspections, or draw approvals, and the homeowner pays the contractor directly.
Cash Flow	Recent increases in both construction costs and interest rates have made it much more challenging for the average homeowner to achieve a positive cash flow on an ADU. Because monthly mortgage payments are not required on a Reverse Mortgage, an ADU may improve

	cash flow significantly. For example, housing a family member who provides support could reduce or replace the cost of in-home care.
No ADU-Only Spending Restriction	Unlike construction and renovation specific financing structures, funds are not restricted to ADU construction. Proceeds beyond the project costs may be used for other needs, such as debt payoff, home improvements, or travel. *With Reverse Mortgage products the homeowner has the freedom to spend the funds however they choose.*
More Flexible Qualifying	Reverse Mortgage requirements vary by product, but income and credit requirements can be much more flexible for seniors with limited monthly income. This makes Reverse Mortgages a very good alternative to the equity-sharing arrangements that many seniors believe are their only option. See "*Better than an HEI*" in the *Resources* section.
Second-Loan Option	We have Reverse Mortgage options that pay off an existing mortgage and relieve the homeowner(s) from that monthly payment obligation. However, we also have a program that can be done in second position. This allows homeowners with a first mortgage that is at a favorable rate to keep that loan if they prefer and continue making that monthly payment.
Payment Flexibility	Borrowers may make no monthly mortgage payment or choose voluntary payments on a schedule that works for them. See "Ultimate Flex-Pay Mortgage" under General Information.

Which Reverse Mortgage Product Is the Best Fit for an ADU?

With several Reverse Mortgage options available, the best choice depends on age, existing financing, funding needs, and timing. We evaluate each client's circumstances to identify the most suitable option. This table is a general guide.

Product	Best For	Key Considerations
HECM (Government Insured Home Equity	• Borrowers age 62 or older. • ADU projects whose funding needs fit within first-year funds access limits. • Situations involving a younger spouse who does	• Borrowers must meet the HECM age requirement. • Access to proceeds may be limited during the first 12 months.

Conversion Mortgage)	not meet the borrower age requirement. • Properties where HECM lending limits provide sufficient proceeds.	• Available proceeds may be more restrictive on higher-value properties.
Proprietary First	• Borrowers age 55 or older who do not meet the HECM age requirement. • Borrowers who need proceeds above HECM limits. • Borrowers who need greater access to funds during the first 12 months.	• Generally lower upfront costs but higher interest rates than HECM. • HECM is generally preferred when the borrower and property qualify. • Loan amounts may be available up to $4,000,000.
Proprietary Second	• Homeowners with a favorable first mortgage they prefer to keep. • Homeowners who need more borrowing capacity than first-position Reverse Mortgage products provide.	• May offer greater borrowing capacity than first-position Reverse Mortgage products. • Available to borrowers as young as 55. • Loan amounts may range from $50,000 to $1,000,000. • Offers significant advantages over equity-sharing arrangements.

Reverse Mortgages can be an effective way to finance an ADU, but they are not the best fit for everyone. We also offer other financing options that may provide access to a higher percentage of the home's equity.

Additional Financing Options for Seniors Adding an ADU

Reverse Mortgages may limit how much equity a borrower can access. For seniors who need a higher loan-to-value, these alternatives may be worth considering.

Product	Features	Why Consider It Over a Reverse Mortgage
Senior HELOC	• Available to borrowers age 62 or older. • Allows borrowers to lock the rate on individual draws.	• Allows higher loan-to-value than Reverse Mortgage products.

	• Interest-only payment option for the life of the loan, avoiding the payment shock common with many standard HELOCs. • Draw period available for the first 10 years.	• May work for borrowers who do not have enough equity for a Reverse Mortgage.
HELOAN	• Fixed-rate loan. • Repayment terms up to 30 years. • No minimum age restriction.	• Allows higher loan-to-value than Reverse Mortgages. • May work for borrowers who do not qualify for a Reverse Mortgage.
Asset Depletion	• Uses qualifying assets to calculate monthly income. • May benefit borrowers with investment or retirement assets but limited monthly income. • Available for first and second-position loans.	• May allow a higher loan-to-value. • In some cases, rates may be more attractive than certain Reverse Mortgage products.

With extensive experience in residential construction and remodeling lending in addition to our expertise in senior lending products, we are in a unique position to assist seniors in using Reverse Mortgages to add an ADU. If you are interested in learning more about this opportunity you are welcome to reach out to us directly.