

Accessory Dwelling Unit (ADU) At-A-Glance

Freddie Mac's ADU policies provide multiple options for adding an ADU to a home or financing a purchase with the intention to rent or build an ADU, including allowing the borrower to use rental income to qualify. Our policies allow you to offer ADU flexibility on any Freddie Mac mortgage, giving your customers more choice in the purchase or renovation financing process.

This resource provides a summary of requirements that must be met for mortgages secured by properties with an ADU.

First things first: What is an ADU?

An ADU can be part of the main home, such as a converted basement, an addition; above a garage, or a detached structures built on the main home's lot, which could include a manufactured home.

***Bottom line...* an ADU is an additional finished area that:**

- ✓ Includes a kitchen
- ✓ Includes a separate entrance
- ✓ Contributes less to the value of the property than the primary dwelling unit
- ✓ Includes a bathroom
- ✓ Independent of the primary dwelling unit
- ✓ Smaller in size than the primary dwelling unit

Eligibility Requirements for a Property with an ADU

The following tables provide information on our eligibility and appraisal requirements for a property with an ADU, and requirements on using rental income generated from an ADU on a subject 1-unit Primary Residence.

Topic	General Requirements
Property Type	Only one ADU is allowed on 1-, 2- and 3-unit properties.
Transaction Type	<ul style="list-style-type: none">▪ Purchase▪ No cash-out refinance
Occupancy Type	<ul style="list-style-type: none">▪ Primary residence▪ Investment property

Note: A vertical revision bar " | " is used in the margin of this quick reference to highlight **new** requirements and significant **changes**.



Topic	General Requirements (cont'd)					
Eligible Mortgages Guide Section 5601.2(a)	Any Freddie Mac offering is eligible. Note: A CHOICERenovation® Mortgage provides an option to use a no cash-out refinance mortgage to pay off short-term financing that financed ADU renovations, including the addition or renovation of an ADU that is completed prior to the note date.					
Ineligible Mortgages Guide Section 5601.2(b)	Mortgages secured by: <ul style="list-style-type: none"> ▪ A 2- to 3-unit property with an ADU that does not comply with zoning and land use requirements. ▪ A 1-, 2-, or 3-unit property with two or more ADUs. ▪ A 4-unit property with an ADU. 					
Manufactured Home as an ADU	A 1-, 2-, or 3-unit property that contains a manufactured home as an ADU is eligible if the requirements in Guide Sections 5601.2(d) and 5703.2 and 5703.7 are met. The subject property cannot be a manufactured home, unless the subject property is a CHOICEHome®.					
Topic	Appraisal Requirements (Guide Section 5601.2(c))					
General	<ul style="list-style-type: none"> ▪ The appraiser must identify whether the subject property has an ADU and report the appraisal on the appropriate report form. Consider: <ul style="list-style-type: none"> ○ Zoning and land use requirements. ○ All property characteristics, specifically, the unit's utility and the property's highest and best use. ○ Refer to the ADU FAQs for more information. 					
Appraisal Forms	<table border="1" data-bbox="375 1115 885 1392"> <thead> <tr> <th data-bbox="375 1115 885 1161">1-unit Property with an ADU</th> </tr> </thead> <tbody> <tr> <td data-bbox="375 1161 885 1392"> <ul style="list-style-type: none"> ▪ Form 70 (Uniform Residential Appraisal Report) ▪ Form 70D (Uniform Residential Appraisal Report – Desktop), if eligible </td> </tr> </tbody> </table>	1-unit Property with an ADU	<ul style="list-style-type: none"> ▪ Form 70 (Uniform Residential Appraisal Report) ▪ Form 70D (Uniform Residential Appraisal Report – Desktop), if eligible 	<table border="1" data-bbox="885 1115 1487 1392"> <thead> <tr> <th data-bbox="885 1115 1487 1161">2- to 3-unit Property with an ADU</th> </tr> </thead> <tbody> <tr> <td data-bbox="885 1161 1487 1392"> <ul style="list-style-type: none"> ▪ Form 72 (Small Residential Income Property Appraisal Report) Note: When Form 72 is utilized for a 2- or 3-unit property with an ADU, the ADU is included as an additional unit. </td> </tr> </tbody> </table>	2- to 3-unit Property with an ADU	<ul style="list-style-type: none"> ▪ Form 72 (Small Residential Income Property Appraisal Report) Note: When Form 72 is utilized for a 2- or 3-unit property with an ADU, the ADU is included as an additional unit.
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ADU Description	The appraiser must include a detailed description of the ADU in the appraisal report and reflect any effect the ADU has on the market value or marketability of the subject property. Describe: <ul style="list-style-type: none"> • General condition • Total room count • # of bedrooms • # of baths • Square footage of the ADU's finished area • An indication ADU is allowed per zoning and land use requirements Reminder: If the appraiser has identified an ADU, confirm the "Accessory Unit" box has been checked on the appraisal report.					



Topic	Appraisal Requirements (Guide Section 5601.2(c)(i) and (ii))	
Zoning Requirements	Comparable Sales	
	Properties with Legal or Legal Non-Conforming Zoning Compliance or Locations without Zoning	Properties with Illegal Zoning Compliance
	<p>The appraisal report must include the following:</p> <ul style="list-style-type: none"> ▪ At least one comparable sale with an ADU, when available, to demonstrate the property’s conformity and marketability to its market area. ▪ If a recent comparable sale with an ADU is not available in the subject neighborhood, the appraiser can use an older sale with an ADU from the subject neighborhood or a sale with an ADU from a competing neighborhood as a comparable sale or as supporting market data. The appraiser may always use more than three comparable sales, including contract sales (pending sales) and/or current listings, to justify and support any adjustments and opinion of market value, as long as at least three are actual closed (settled) sales. ▪ If a comparable sale with an ADU is not available, the appraiser can use a comparable sale in the subject neighborhood without an ADU as long as the appraiser can justify and support such use in the appraisal report. <p>Freddie Mac will purchase eligible mortgages secured by a property with an ADU if the appraiser can develop an accurate opinion of market value for the property.</p>	<ul style="list-style-type: none"> ▪ The subject property must be a 1-unit property with an ADU. ▪ The “Site” section of the appraisal report indicates that the ADU does not comply with zoning and land use requirements. ▪ At least two comparable sales with an ADU must be included in the appraisal report. The ADU of each comparable sale must also be non-compliant with the zoning and land use requirements (illegal zoning) to demonstrate the marketability of the subject property to its market area; and ▪ The Seller confirms that the existence of the ADU will not jeopardize future hazard insurance claims.
	<p>Note: If using rental income from an ADU on a subject 1-unit primary residence to qualify, refer to Section 5306.3 for comparable sales and rental requirements.</p>	



Using Rental Income from an ADU on a Subject 1-unit Primary Residence

Topic	Requirements						
Transaction Type	<ul style="list-style-type: none">▪ Purchase▪ No cash-out refinance						
Rental Income Calculation (Subject 1-unit primary residence with an ADU) (Guide Section 5306.3(c))	<ul style="list-style-type: none">▪ Rental income from ADU used for qualifying cannot exceed 30% of the total stable monthly income used to qualify the borrower. <table border="1" data-bbox="415 753 1459 1255"><thead><tr><th data-bbox="415 753 911 842">Rental Income Documentation</th><th data-bbox="911 753 1459 842">Net Rental Income Calculation</th></tr></thead><tbody><tr><td data-bbox="415 842 911 909">Lease</td><td data-bbox="911 842 1459 1087">75% of the gross monthly rent or gross monthly market rent. Note: The 25% adjustment is made to compensate for vacancies, operating and maintenance costs and any other unexpected expenses.</td></tr><tr><td data-bbox="415 909 911 1087">ADU rental analysis</td><td data-bbox="911 1087 1459 1255">Calculate the net rental income from Schedule E using Form 92. Net Rental Income Calculations-Schedule E or a similar alternative form.</td></tr></tbody></table>	Rental Income Documentation	Net Rental Income Calculation	Lease	75% of the gross monthly rent or gross monthly market rent. Note: The 25% adjustment is made to compensate for vacancies, operating and maintenance costs and any other unexpected expenses.	ADU rental analysis	Calculate the net rental income from Schedule E using Form 92. Net Rental Income Calculations-Schedule E or a similar alternative form.
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Rental Income Documentation (Subject 1-unit primary residence with an ADU) (Guide Section 5306.3(b)(i) and (ii))	Purchase	No Cash-out Refinance
	<ul style="list-style-type: none"> ▪ If a lease¹ is available, then the lease must be used to determine the net rental income, and ▪ ADU rental analysis, as described in Section 5306.3(b)(iii), must support the income reflected on the lease. <p>If the lease is not available, the ADU rental analysis must be used to determine the net rental income.</p>	<ul style="list-style-type: none"> ▪ The borrower's complete federal income tax returns (IRS Form 1040), including Schedule E for the most recent year must be used to determine the net rental income, except as stated below: <p>A lease¹ and ADU rental analysis as described in Guide Section 5306.3(b)(iii) may be used if the ADU rental analysis supports the rental income reflected on the lease and one of the following are met:</p> <ul style="list-style-type: none"> ▪ The property was out of service for anytime period in the prior year and the loan file contains a documented event such as a renovation and the Schedule E supports this by a reduced number of days in use and reflects repair costs; or ▪ The property was purchased later in the calendar year and the Schedule E supports this by a reduced number of days in use; or ▪ The property was placed in service in the current calendar year as documented in the mortgage file.
<p>¹ Lease requirements: When a lease is obtained in accordance with the minimum income documentation requirements above, the lease must be current and fully executed. For newly executed leases, the first rental payment due date must be no later than the first payment due date of the mortgage.</p>		



Topic	Requirements (cont'd)										
Landlord Education (Subject 1-unit primary residence with an ADU) (Guide Section 5306.3(d))	<ul style="list-style-type: none"> ▪ Purchase transactions only <ul style="list-style-type: none"> ✓ At least one qualifying borrower must participate prior to the Note Date unless the borrower has a minimum of one-year investment property management experience or ADU rental management experience. ✓ Must not be provided by an interested party to the transaction, the originating lender or the Seller. ✓ A copy of the certificate evidencing the successful completion of the program must be retained in the loan file. 										
Appraisal Requirements When Using Rental Income (Subject 1-unit primary residence with an ADU) (Guide Section 5306.3(b)(iii))	<ul style="list-style-type: none"> ▪ When rental income generated from the ADU is used to qualify the borrower(s), an appraisal report is required and must provide the following information on the ADU: <ul style="list-style-type: none"> ✓ General condition of unit. ✓ Square feet of finished area. ✓ Total number of rooms including number of bedrooms and baths. ✓ The appraisal report must indicate the ADU is allowed per zoning and land use requirements (e.g., legal, legal non-conforming, no zoning). ✓ The appraiser must provide at least one comparable sale with an ADU. ✓ The ADU rental analysis must include a minimum of three comparable rentals to support the opinion of market rent applicable to the ADU. At least one of the comparable rentals must include a rented ADU to support the market rent for ADUs. <p style="margin-left: 40px;">Note: The appraiser may provide this rental analysis data in narrative form within the appraisal report or by attaching a separate rent schedule to the appraisal report.</p> <p>Refer to the Appraisal Requirements section, and Guide Section 5601.2 for additional requirements for a property with an ADU.</p>										
Loan Product Advisor (Subject 1-unit primary residence with an ADU)	<p>Use the following steps to enter rental income from an ADU on a subject 1-unit primary residence and the number of ADUs on the subject property.</p> <table border="1" data-bbox="375 1251 1466 1808"> <thead> <tr> <th data-bbox="375 1251 691 1308">Data Field/Unique ID</th> <th data-bbox="691 1251 1466 1308">Data Entry</th> </tr> </thead> <tbody> <tr> <td data-bbox="375 1308 691 1365">Income Type (258.00)</td> <td data-bbox="691 1308 1466 1365">Provide the value "AccessoryUnitIncome" for one borrower only.</td> </tr> <tr> <td data-bbox="375 1365 691 1497">Current Income Monthly Total Amount (256.00)</td> <td data-bbox="691 1365 1466 1497">Provide the net rental income amount (reminder the net rental income cannot exceed 30% of the total stable monthly income used to qualify the borrower).</td> </tr> <tr> <td data-bbox="375 1497 691 1629">Purchase: Accessory Dwelling Unit Count (71.70)</td> <td data-bbox="691 1497 1466 1629">Provide the number of ADUs on a subject property even if ADU income is not being used to qualify.</td> </tr> <tr> <td data-bbox="375 1629 691 1808">Refinance (Property You Own): Accessory Dwelling Unit Count (33.70)</td> <td data-bbox="691 1629 1466 1808">Provide the number of ADUs on a subject property even if ADU income is not being used to qualify.</td> </tr> </tbody> </table> <p>Note: LPA will return a purchase restriction if the ADU rental income exceeds the total stable monthly income used to qualify.</p>	Data Field/Unique ID	Data Entry	Income Type (258.00)	Provide the value "AccessoryUnitIncome" for one borrower only.	Current Income Monthly Total Amount (256.00)	Provide the net rental income amount (reminder the net rental income cannot exceed 30% of the total stable monthly income used to qualify the borrower).	Purchase: Accessory Dwelling Unit Count (71.70)	Provide the number of ADUs on a subject property even if ADU income is not being used to qualify.	Refinance (Property You Own): Accessory Dwelling Unit Count (33.70)	Provide the number of ADUs on a subject property even if ADU income is not being used to qualify.
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	<p>If you access LPA using Freddie Mac Loan Advisor® single sign-on portal:</p> <ol style="list-style-type: none">1. Select “Borrower Info” Metro Stop.2. Under Other Income, select Income Type as “Accessory Unit Income”.3. Enter the net rental income amount for Monthly Income (reminder the net ADU rental income cannot exceed 30% of the total stable monthly income used to qualify the borrower).4. Provide the number of ADUs on a subject property even if accessory unit income is not being used to qualify, in the “Accessory Dwelling Unit Count” field.<ol style="list-style-type: none">a. Purchase: Select “Loan and Property Info” Metro Stop. Enter the number of ADUs.b. Refinance: select “Real Estate Owned” Metro stop. Enter the number of ADUs on the subject 1-unit property. <div data-bbox="354 783 1477 1491"><p>Create Loan: Loan and Property Information</p><p>LOAN FILE SETUP BORROWER INFO ASSETS AND LIABILITIES REAL ESTATE LOAN AND PROPERTY INFO DECLARATION/SCIF DEMOGRAPHIC INFO LENDER LOAN INFO REQUEST SERVICES</p><p>SAVE SUBMIT</p><h3>Loan and Property Information *Required</h3><p>Loan Amount * <input type="text" value="\$"/></p><p>Loan Purpose * <input type="radio"/> Purchase <input type="radio"/> Refinance</p><p>Street Address <input type="text"/></p><p>Unit # <input type="text"/> City <input type="text"/> State <input type="text"/> Zip Code <input type="text"/></p><p>Number of Units * <input type="text"/> Estimated Property Value <input type="text" value="\$"/></p><p>Appraised Property Value <input type="text" value="\$"/> Appraisal Identifier <input type="text"/></p><p>Property Usage Type * <input type="radio"/> Primary Residence <input type="radio"/> Second Home <input type="radio"/> Investment</p><p>FHA Secondary Residence <input type="radio"/> Yes <input type="radio"/> No</p><p>Accessory Dwelling Unit Count <input type="text"/></p><p>Accessory Dwelling Unit Monthly Rent Amount <input type="text" value="\$"/></p><p>Program Identifier(s) <input type="text" value="Select"/></p><p>Future Use</p><p>The ADU fields are dynamic and will only display if “Purchase” is selected as the Loan Purpose.</p></div>



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<p>Additional Information: Other property types with ADU rental income</p>	<table border="1"> <thead> <tr> <th data-bbox="358 1062 727 1119">Property Type</th> <th data-bbox="727 1062 1096 1119">ADU Rental Income</th> <th data-bbox="1096 1062 1464 1119">ADU Count</th> </tr> </thead> <tbody> <tr> <td data-bbox="358 1119 727 1272"> Subject 1-unit investment property with an ADU <ul style="list-style-type: none"> Allow ADU income and provide ADU count. </td> <td data-bbox="727 1119 1096 1272"> Include ADU rental income in the total rental income amount for each real estate owned. </td> <td data-bbox="1096 1119 1464 1272"> Enter the number of ADUs on the subject property. </td> </tr> <tr> <td data-bbox="358 1272 727 1419"> Non-subject properties with an ADU. </td> <td data-bbox="727 1272 1096 1419"> Include ADU rental income in the total rental income amount for each real estate owned. </td> <td data-bbox="1096 1272 1464 1419"> Do not enter ADU count. </td> </tr> <tr> <td data-bbox="358 1419 727 1745"> Subject 2- and 3-unit primary residence or investment property with an ADU <ul style="list-style-type: none"> ADU income not permitted, but enter the number of ADUs on the subject property. </td> <td data-bbox="727 1419 1096 1745"> Not permitted. </td> <td data-bbox="1096 1419 1464 1745"> Enter the number of ADUs on the subject property. </td> </tr> </tbody> </table>	Property Type	ADU Rental Income	ADU Count	Subject 1-unit investment property with an ADU <ul style="list-style-type: none"> Allow ADU income and provide ADU count. 	Include ADU rental income in the total rental income amount for each real estate owned.	Enter the number of ADUs on the subject property.	Non-subject properties with an ADU.	Include ADU rental income in the total rental income amount for each real estate owned.	Do not enter ADU count.	Subject 2- and 3-unit primary residence or investment property with an ADU <ul style="list-style-type: none"> ADU income not permitted, but enter the number of ADUs on the subject property. 	Not permitted.	Enter the number of ADUs on the subject property.
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<p>Delivery Requirements</p>	<p>Loan Selling Advisor: A mortgage secured by a 1-unit primary residence where rental income from an ADU is used to qualify the borrower you must deliver the valid value of "J66" for ULDD Data Point, <i>Investor Feature Identifier</i> (Sort ID 368).</p>												



Resources

For additional questions and support reach out to our **Customer Support Contact Center**, **800-FREDDIE**, or access the following resources for more information:

 [Webinar](#)

 [ADU webpage](#)

 [Online Reference Tool](#)

 [FAQs](#)

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