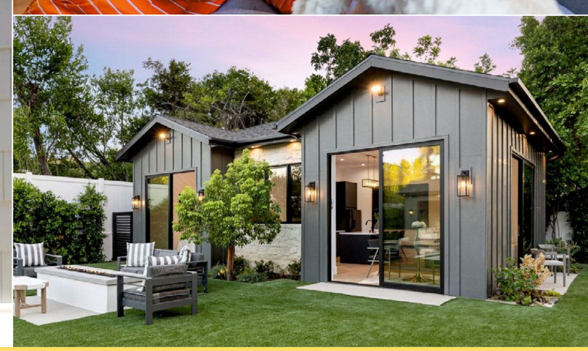
Affordable Housing

COUNTY OF NAPA

Affordable Accessory Dwelling Unit Forgivable Loan Program Guidelines



AADU LOAN PROGRAM
NAPA COUNTY, CA
COUNTYOFNAPA.ORG

2026

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Get up to $105,000 as a Forgivable Loan to Build an ADU that is Kept Affordable For 5 Years

Benefits of Building an Affordable ADU:

- Increase value of your property
- Create an additional revenue stream for your household
- Provide much needed affordable workforce housing
- Promote sustainable, compact development and reduce the environmental impact large-scale housing developments
- Create long-term housing flexibility on your property
- Reduce the cost of building an ADU with a loan that doesn't need to be paid back after renting the unit to a low-income resident for 5 years

Who is Eligible?

Any homeowner living full-time in a single-family home in Napa County who commits to renting the new ADU at an affordable rent for 5 years.

Who Can Live in the ADU?

Any Napa County household earning up to 80% of Area Median Income; family members of homeowner are allowed to occupy unit.

Household Size	Income Limit*
1	$89,750
2	$102,550
3	$115,350
4	$128,150

For larger households, consult Napa County ADU Forgivable Loan Program staff.

*This data is as of April 2025. Figures are updated annually by HCD in April.

ADU Forgivable Loan Program Benefits

ADU Size		**1 Bedroom**	**2 Bedroom +**
Typical square footage		600 sq ft	800 sq ft
Projected Development Cost*		$299,000	$368,000
Base Forgivable Loan		$60,000	$85,000
Rebate Amount		$20,000	$20,000
Total ADU Rebates		$80,000	$105,000
Remaining cost to homeowner		$219,000	$263,000
Monthly rent			
(subject to modest annual increases)		$2,563	$2,884
Average monthly expenses		$2,100	$2,300
Monthly cash flow after loan payments**		$1,345	$1,582

*This varies widely and just for illustrative purposes.

**Estimates that vary widely and can be significantly higher when unit is rented at market rate after 5 years.

What Other Benefits does the Affordable ADU Loan Program Provide?

In addition to a loan that is forgiven after renting the unit to a low-income tenant for 5 years, the County's Affordable ADU Loan Program provides:

- Robust technical assistance to support homeowners with planning, building, leasing and management of their ADU rental.
- Tenant match-up support, connecting interested, income-eligible local workforce applicants with homeowners ready to rent out their ADU after construction.
- Reimbursement for building and impact fees for ADUs built in the unincorporated County.
- Funds to assist with closing costs for homeowners seeking conventional funding as a part of their project financing.
- Funds to assist with the establishment of Managed Construction Escrow Services
- Funds to assist with installing energy efficient heat pumps, solar, and/or other green-energy features (see Rebates below for more information.).

Applicant Expectations

- Applicant must build the ADU on same property as their primary residence.
- Applicant must live in the primary residence and rent out the ADU to qualified tenant(s) through the term of the 5-year affordability agreement.
- Complete online educational webinars/assigned courses providing overview and technical assistance for ADU development and property management. Have all funding to pay for remaining costs of building ADU deposited into an approved Managed Construction Escrow Account at the time of loan closing.

Questions?

Learn more about the Napa County AADU Loan Program by visiting our website (countyofnapa.org) or scanning the QR code.

I. Loan Program Summary

A. The County of Napa is offering Affordable Accessory Dwelling Unit ("AADU") Forgivable Loans to homeowners who do the following:

1. Build a new ADU at their residence.
2. Commit to rent the unit to an individual or household earning up to 80% of Area Median Income (AMI), and
3. Commit to a maximum monthly rental rate equal to or less than rent that is Affordable Rent for 80% AMI households for a period of at least five (5) years. The loan proceeds will offset a portion of the homeowner's cost of construction of the ADU.

B. An AADU Forgivable Loan is a construction loan that ranges in amount based on a Base Loan amount per the number of bedrooms and the Incentive Loan amounts based on additional criteria as outlined below:

Maximum AADU Loans:

$60,000 for a 1 Bedroom ADU

$85,000 for a 2 Bedroom ADU

C. Homeowners participating in the program are eligible for the following additional rebates: (see "Additional Rebates" below for further information)

1. For permit fees for homeowners building an ADU within the planning jurisdiction of Napa County (the unincorporated County). **Value: up to $10,000**
2. For closing costs and fees related to conventional loan financing. **Value up to $2,500**
3. For the installation of solar power and energy storage system as the primary power supply for the ADU. **Value up to: $2,500**
4. For the installment of a heat pump instead of a conventional HVAC system. **Value up to: $2,500**
5. For the use of high-efficiency insulation and windows, green roof, tankless water heater, and/or use of sustainable materials (reclaimed wood, bamboo flooring, or cork to improve insulation and reduce environmental impact. **Value up to $2,500**.

Maximum possible rebate amounts above Base Loans: **$20,000** (actual additional amounts will vary by project size, financing and design elements.

D. In exchange for the AADU Forgivable Loan, the applicant agrees to rent the finished ADU at a maximum monthly rent that is affordable to households earning up to 80% of Area Median Income (AMI). This amount is set by the California Department of Housing and Community Development (HCD) each year and is updated and published annually in April. Maximum rent refers to the full amount paid by the tenant for rent, including utilities, parking fees and other charges.

As of April 2025, maximum monthly affordable rent is, $2,563 for a 1-bedroom ADU and $2,884 for a 2-bedroom ADU. (These maximum rents will increase each year when new income limits are published. All homeowners participating in the program will receive notice of the new maximum rates each year they are participating in the program.)

E. The applicant agrees to a 5-year rental affordability covenant placed on the ADU and to rent the unit at an Affordable Rent for 60 months (excluding periods of vacancy, for example after one tenant moves out and before a new one moves in).

F. Unit cannot remain vacant for longer than 6 consecutive months following completion of construction or tenant-leaseholder turnover. 7+ consecutive months of unit vacancy will result in a notice of default.

G. The loan is available to homeowners anywhere within the geographic boundary of Napa County.

H. Applicants who meet program requirements will be awarded forgivable loan funds upon approval of application.

I. Homeowners are only eligible for one AADU Program loan at their primary residence.

J. Loans are not transferable to new property owners. In the event an existing borrower sells their home, the County loan balance must be repaid at the time of sale closing.

II. General Information

A. Overview

1. To better address the need for housing that is affordable to low-income constituents in Napa County ("the County") seeks to encourage the production of housing that is affordable throughout the County by incentivizing the creation of accessory dwelling units ("ADUs") through the Napa County Affordable ADU Forgivable Loan Program (the "Program").

B. Key Contact Information

1. Homeowner(s) and/or potential borrowers under the Program are encouraged to consult with County staff in the process via the contact information below:
   AADU Loan Program | Napa County, CA (countyofnapa.org)

C. Definition

1. **Accessory Dwelling Unit (ADU):** Napa County Code Section 18.08.550 refers to an accessory dwelling unit as a "second unit" and defines it as set forth in California Government Code Section 65852.2(j)(1) or successor provision; according to both, an ADU is a residential dwelling unit which provides complete independent living facilities for one or more persons, including permanent provisions for living, sleeping, eating, cooking and sanitation on the same parcel, or parcels, as a primary dwelling unit is situated. The ADU may be attached or detached.
2. **Program Supported Unit:** Refers to any ADU supported by a Napa County Affordable ADU Forgivable Loan Program.
3. **Affordability Covenant:** An agreement between Napa County and a property owner to restrict the price of a housing unit, among other conditions, for a given period. Once the covenant is satisfied, the property owner may choose to rent the unit at any price otherwise allowed by law.
4. **Affordable Rent:** Affordable rent is generally defined as rent for housing on which the occupant is paying no more than 30 percent of gross income for housing costs, including utilities, and adjusted for household size.
5. **Forgivable Loan:** A loan provided to a homeowner that is forgiven over time in exchange for compliance with provisions described elsewhere in this document.
6. **Maximum Renter Household Income:** The maximum household income of a household living in an ADU, determined based on reported income by the household upon applying to rent the unit. The Maximum Renter Household Income is 80% of Area Median Income (AMI) for Napa County, as defined by the California Department of Housing and Community

Development (HCD). In 2025, this ranges from $89,750 for a 1-person household to $115,350 for a 3-person household, etc.

7. **Minimum Rental Period of Affordability:** A homeowner must agree, by signing an Affordability Covenant, to renting an ADU at an affordable rent for at least 60 months, meaning the unit is occupied by a resident paying an affordable rent for at least 60 months.
8. **Minimum Lease Term:** The minimum commitment a homeowner may make with a tenant in a Program-supported ADU is 12 months; this Minimum Lease Term is notwithstanding the Minimum Rental Period of Affordability, which requires the unit to be rented for 60 months at an affordable rent.
9. **Projected Total Development Cost:** The estimated cost of all aspects of building an ADU, including design, engineering, local fees, construction materials, construction labor
10. **Managed Construction Escrow Account**
    a) A third-party holding account for funds for a construction project. This account holds funds for the project until specific terms are met, then releases those funds to the contractor. Having funds in escrow helps guarantee that funds will be available for the project and restricted funds are properly used. The financing company, the title company, project owner, and even the contractor may request an escrow account. This account is funded before the work begins based on the projected budget for the project. Managed Construction Escrow Accounts are also often used in new construction. For example, when building a new home, the lending institution will use a construction escrow account. When the project is completed and passes inspection, the funds are released to the contractor.
    b) When the contractor is ready to receive funds for completed work, they submit a pay application or request a "draw" from the escrow company. Upon the managed construction escrow provider's approval of each building phase, the contractor can request a draw of funds to pay off building costs such as contractor bids, excavation costs, and permit fees. This request is reviewed by the escrow company for the bank. Then, an onsite inspection may happen to ensure the amount requested matches the work completed.
    c) A Managed Construction Escrow Account benefits the homeowner, lender(s) and the contractor. For the homeowner, the account provides certainty the contractor(s) will be paid without having to do a lot of legwork. For the lender(s), the account ensures checks- and-balances on funding being applied to specific approved funding uses. Finally, when working on a project with an escrow account, the contractor has certainty that the full project is funded.

III. Transaction Underwriting Guidelines

A. Pre-Application

1. An applicant seeking a Program loan from the County of Napa must follow the steps listed below to submit a Pre-Application:
    a) Go to the AADU Loan Program website (countyofnapa.org)
    b) Utilize the Napa ADU calculator tool (Napa/Sonoma: Calculator (calculator.napasonomaadu.org) to estimate the cost of constructing a rental ADU.
    c) Schedule a Feasibility Consultation with Napa Sonoma ADU. During this consultation, homeowners will meet with an ADU expert 1:1 at the property or virtually (homeowner preference) and receive a customized written ADU feasibility report. Consult has a $350 value and is provided at no-cost to homeowners interested in applying for the AADU Loan Program.

B. Application Require Steps- Application: Pre- Approval

1. Upon completion of the Feasibility Consultation, applicant will utilize the County's online application system and submit request for funding based on AADU size, indicate which additional rebates are sought, execute an intent to commit to a five-year affordability covenant on the AADU, and upload the feasibility consult report and project budget.
2. County staff will review the application and schedule a 30-minute virtual or in-person project consultation between County program staff and applicants (all applicants are required to attend, including all property owners listed on the deed of trust). Following the initial consultation and any required changes to the application, approved projects will receive a Reservation of Funds and letter, reserving available Program Loan funds for the individual project for a period of 180 days. A Reservation of Funds does not guarantee a loan will be awarded; it is a step towards obtaining the award.
3. During the 180-day Reservation of Funds period, and before moving to final loan approval, applicant(s) need to complete the following project-related steps:
    a) Complete assigned applicant education classes. Classes are at no-cost to applicants with Pre-Approval for the County AADU Forgivable Loan. Classes include technical assistance with Financing, Construction Management, Post-Construction/ Lease-Landlord Management, Managed Construction Escrow Accounts, Neighborly Portal Assistance and How to Certify an Eligible Tenant

b) Finalize ADU plan set and finalize project budget including identification of General Contractor.
c) Secure all additional project funding sources necessary for the total construction cost of the ADU.
d) Submit project budget to County staff for review and confirmation of eligible costs and rebate eligibility.
e) Establish a Managed Construction Escrow Account.
f) Secure all permits needed.

C. Applicants will have access to no-cost, weekly “office hours” with Napa County program staff to answer any questions about their application and troubleshoot barriers to application completion.

D. Application Required Steps- Application: Final Approval

1. Once project financing, Managed Construction Escrow Services, permits, plan sets and contract with general contractor and required homeowner education classes are completed, applicant must submit evidence of all requirements via the online application system.
2. County staff will review all documents and schedule a site-visit to inspect the site of the new ADU.
3. Following document review and site visit, staff will provide final approval on the AADU Forgivable Loan.
4. Applicant will execute all loan documents and the Affordability Covenant.
5. County will release funds to the Managed Construction Escrow Account.
6. Applicant will have two years from release of funds to complete construction and initiate lease-up.

E. Eligibility

1. Eligible Projects
   a) Project must be on a property that is owned and occupied by the applicant as their primary residence. Properties cannot be used for any short or long-term rentals.
   b) Project must be a new ADU created through one or more of the following development opportunities: construction of new ADUs or conversion of existing portions of non- residential structures on the property to an ADU. Examples of project ineligibility include but are not limited to the following:
      (1) Units under construction are not eligible.
      (2) Units that have already received a certificate of occupancy are not eligible.
      (3) Unpermitted existing units are not eligible.
   c) Project types to be funded are ADUs built on a property with a single-family home, where the applicant is the homeowner(s), and the applicant commits to renting the unit at an affordable

rent to a low-income household earning up to 80% of Area Median Income (AMI), as defined by the Federal Department of Housing and Urban Development (HUD), for at least five years.

d) Projects funded by this loan program must have all work completed by a construction contractor licensed by the California Contractors State License Board.

e) Due to conflict of interest issues, applicants may not be their own General Contractor, nor may they be sub-contractors for any part of the project.

2. Eligible homeowner applicants

   a) Applications are accepted from homeowners occupying a single-family home in Napa County that have met the applicant thresholds elsewhere in the guidelines.

   b) Maximum of one Program loan per parcel.

3. Eligible uses of funding

   a) Eligible uses of Program funding include normal and customary construction expenses, such as:

      (1) Construction materials and labor costs incurred after loan funding.

      (2) General contractor fees and overhead, not to exceed 10% of the total project cost, incurred after loan funding.

      (3) Site work costs, such as water/sewer/septic connections, utility improvements, or site leveling as is necessary for the construction of an ADU only. In the event site work includes improvements to systems that are tied to the primary residence, eligible site work costs for the ADU will be calculated by the proportional relationship of the primary residence square footage to the ADU square footage. Only County- approved costs in project budget and incurred after loan funding are eligible.

      (4) Permit costs beyond any that are waived through participation in this Program

      (5) Other hard or soft costs approved at the discretion of the County, as expressly stated in the Letter of Determination

4. Ineligible uses of funding: The County will determine, in its sole discretion, costs deemed excessive or unreasonable, or uses deemed ineligible. Ineligible uses of funding include, but are not limited to, costs associated with construction items or materials of a luxury nature or furnishings

5. Eligible tenant households
    a) Eligible tenant households are those earning up to 80% of Area Median Income, as defined elsewhere in these guidelines.
    b) Eligible tenant households must be income certified by Napa County Program Staff before a qualifying lease is executed. Recertification over the term of an individual tenant lease is not required.
    c) Napa County Program Staff will provide applicant with a list of documents needed to verify tenant's income, included as Exhibit B. Homeowner will then provide those documents to the County, and Napa County Program Staff will verify eligibility within 5 business days of submission.
    d) Eligible tenant households may be related to applicant.
    e) Upon vacancy of the unit by certified tenant, a new eligible tenant household must be income certified.
    f) Months during which a unit is vacant due to tenant turnover will not count toward the 60-month affordability requirement.
6. Title report requirement: The County will review a title report for the property.

F. Project underwriting guidelines

1. Loan Terms
    a) Method of financial assistance: Forgivable construction loan
    b) Loan sizing
        (1) The maximum Forgivable Loan shall be the lesser of:
            (a) The base loans for 1 bedroom or 2 bedroom units
            (b) The actual development cost of the ADU.
2. Any homeowner applicant who commits to renting the ADU funded by this loan is eligible for the following forgivable loan amounts, based on the prototypes described above.

Table 2: Forgivable loan offered to any homeowner in exchange for a 5-year affordability covenant

	Base Loan Amount	Additional Maximum Rebate Amount	Total Maximum Forgivable Loan
1 Bedroom	$60,000	$20,000	$80,000
2 Bedroom	$85,000	$20,000	$105,000

    a) Interest rate: 5.0% simple interest, deferred. See below regarding Loan forgiveness.
    b) Loan term: The loan term will coincide with the duration of the affordability commitment (5 years/60 months). If the affordability covenant is extended, the loan term will extend commensurately.

c) Loan Forgiveness
    (1) Over the course of 5 years 1/60th (or 1.66%) of the Forgivable Loan (Base Loan + Incentive Loan amounts) will be forgiven, including interest. Upon certification of 60 months of program compliance, the full loan shall be forgiven.
    (2) A homeowner who has received a forgivable loan may “opt out” of the program at any time by reimbursing the County for remaining portion of the forgivable loan including interest due. At that time, the County will remove the affordability covenant recorded on the homeowner’s property.

3. Affordable housing provisions
    a) Term of deed restrictions: All units assisted by the ADU Loan Program will be subject to affordability covenants of 5 years.
    b) The affordability covenant and loan term can be extended to account for periods of vacancy, meaning for each month the unit is vacant, the affordability covenant can be extended for one month.
    c) The affordability covenant requires that the unit be rented at an affordable price for 60 months to meet loan terms and achieve full principal loan balance and accumulated interest forgiveness.
    d) Eligible households: See eligibility section above

G. Termination of Loan

1. The remaining loan balance and accrued unforgiven interest will be immediately due and payable upon:
    a) The sale of the property or change in title/ownership,
    b) Borrower’s failure to occupy the main home,
    c) Borrower’s failure to rent to an income certified tenant and affordable rent level within 6 months of completion or tenancy vacancy; and
    d) Borrower’s breach of any other provisions of the Loan documents that remains uncured.
2. The remaining loan balance and accumulated unforgiven interest shall also be due and payable within 90 calendar days if Borrower notifies County that Borrower has decided to no longer rent the unit as an affordable unit and participate in the program.

H. Insurance Requirements

1. Evidence of all-hazard insurance for full replacement value must be provided by the borrower that names County as loss payee annually for the term of the loan.

2. Evidence of flood insurance must be provided, if applicable annually for the term of the loan.
3. Borrower shall keep all buildings located on the Property insured against loss by fire, vandalism, and malicious mischief by a policy of standard fire and extended all-risk insurance annually for the term of the loan. The policy shall be written on a full replacement value basis and shall name Beneficiary as loss payee as its interest may appear. The full replacement value of the Accessory Dwelling Unit to be insured shall be determined by the company issuing the policy at the time the policy is initially obtained. Not more frequently than once every two (2) years, the County shall have the right to notify the other borrower that it elects to have the replacement value redetermined by the insurance company. Subject to the rights of any senior lienholder, the proceeds collected under any insurance policy may be applied by Beneficiary to any indebtedness secured hereby and in such order as Beneficiary may determine, or at the option of Beneficiary, the entire amount so collected or any part thereof may be released to Borrower; provided however, if Borrower is not in default under the Loan Documents, the proceeds shall be released to Borrower to repair or rebuild the Improvements provided that sufficient additional sources of financing to complete such repair or rebuilding are available to complete such work. Such application or release shall not cure or waive any default or notice of default hereunder or invalidate any act done pursuant to such notice.

I. Relocation Laws: A County-supported ADU cannot result in displacing any tenant currently residing on the property.

J. Lease Requirements

1. Leases must clearly state that the amount of rent to be charged shall be set at an amount that is affordable to a household at 80% of Area Median Income (AMI) based on the number of bedrooms and occupancy, including utilities, parking fees and other charges. (These maximum rents are determined by HCD. They will increase each year when new income limits are published. All homeowners participating in the program will receive notice of the new maximum rates each year they are participating in the program.)
2. Rental of units is subject to all federal, state, and local fair housing laws and regulations.

IV. Additional Rebates for Homeowners

A. Unincorporated County building fees:

1. Homeowners building an ADU in unincorporated areas of Napa County are eligible for an additional loan rebate amount of up to $10,000 toward building and impact fees assessed by the County.

B. Rebate for conventional loan closing costs and fees:
   1. Applicants are eligible for an additional loan rebate amount of up to $2,500 to pay for the closing costs and fees associated with a conventional loan to pay for part of the cost of building an ADU.

C. Rebate for installation of a solar power and energy storage system for the ADU:
   1. To encourage energy efficiency, applicants are eligible for an additional loan rebate amount of $2,500 if they design and install a solar power and solar energy storage system as the primary power system for the ADU.

D. Rebate for installation of a heat pump instead of conventional HVAC system:
   1. To encourage energy efficiency, applicants are eligible for an additional loan rebate amount of $2,500 if they install a heat pump into their project.

E. Rebate for additional “Green Energy” ADU upgrades:
   1. To incentivize additional energy efficiency measures, a rebate of up to $2,500 for the use of high-efficiency insulation and windows, green roof, tankless water heater, and/or use of sustainable materials (reclaimed wood, bamboo flooring, or cork to improve insulation and reduce environmental impact. Applicants may propose additional energy savings measures for rebate eligibility under IV.E. consideration at the time of budget submission.