



**ACCESSORY DWELLING UNIT CREATION
FORGIVABLE LOAN
PROGRAM GUIDELINES
\$50,000**

**Approved by Town Council on April 8, 2025
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Accessory Dwelling Unit (ADU) Creation Forgivable Loan Program

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1. General

The ADU Creation Forgivable Loan Program (“Program”) provides eligible homeowners in the Town of Truckee with forgivable loan funds of up to \$50,000 to develop Accessory Dwelling Units (“ADUs”) and Junior Accessory Dwelling Units (“JADUs”) and to permit existing unpermitted ADUs and JADUs on their existing Property. The purpose of the Program is to offer financial incentives in order to increase the inventory of safe, long-term rental housing in Truckee for the local workforce.

The Program will run until December 31, 2026 or when loan funds run out. Applicants must apply to the Program and complete the Project within this two-year period to qualify for a loan. The Program requires that the Applicant long-term rent the newly constructed ADU or JADU for a period of seven (7) or ten (10) years, year-round, to qualified tenants. This Program may be layered with the Town’s PLHA ADU Low Interest Loan program.

2. Definitions

The following definitions are relevant to the Program:

- A. Accessory Dwelling Unit: An ADU is an attached or detached residential dwelling which provides complete independent living facilities for one or more persons on the same site as a single-family or multifamily residence. The ADU includes permanent provisions for living, sleeping, eating, cooking, and sanitation.
- B. Applicant: The individual(s) applying for the Program who own the Property on which the Unpermitted ADU or JADU is located.
- C. Area Median Income (AMI): The median income for Nevada County as defined by the California Department of Housing and Community Development (HCD) and adjusted for household size are published annually. Percentages of Area Median Income amounts are further calculated by the Town and are available on the Town’s website.
- D. After-the-Fact Permit Process: The process for bringing unpermitted ADUs and JADUs into compliance with Town building and planning codes is known as the After-the-Fact Permit Process. The process requires the Applicant to provide documentation to prove that the existing unit meets today’s building and planning standards and is safe for habitation. In some cases the After-the-Fact Process may require building improvements to meet building and planning standards.
- E. Deed Restriction: The binding agreement signed by the applicant. The Deed Restriction places restrictions on the workforce housing unit during the term based on agreed uses, including owner occupancy and income.
- F. Junior Accessory Unit: A Junior Accessory Dwelling Unit (JADU) is a unit that is no more than 500 square feet in size and contained within or attached to the living space of an existing or proposed single-family structure.

- G. Property: The legal parcel and all improvements thereon, including the primary dwelling and the ADU or JADU
- H. Qualified Tenant: The household renting or leasing the Workforce Housing Unit where at least 50% of the people over 18 who are not full-time students must work at least 20 hours per week or meet the half-time employment equivalency with employer verification for an employer based in the Tahoe Truckee Unified School District (or equivalent amount over a period of a year) and whose total household income does not exceed 60% AMI or 120% AMI. A Qualified Tenant household will include all residents of a home, whether occupied by an individual, a family unit, or roommates.
- I. Unpermitted ADU or JADU: An unpermitted ADU or JADU is a unit that was built without Town required building permits. These units are considered unpermitted until they comply with building and planning code standards of the Town and receive an After-the-Fact permit
- J. Workforce Housing Unit: A housing unit that is deed restricted through the Unpermitted Forgivable ADU Loan program. The Workforce Housing Unit can be either the main dwelling or the ADU or JADU.

For simplicity's sake, both Accessory Dwelling Units and Junior Accessory Dwelling Units will be referred to collectively as "ADU" throughout these Guidelines.

3. Program Outreach and Marketing

Town staff will post the opening of the application period, along with application information and materials, on the Town's website. Town staff will also issue a press release and Program information will be provided to all interested parties.

- A. The Fair Housing logo will be placed on all outreach materials and applications.
- B. The Program Administrator ("the Administrator") will work closely with local homeowners providing information for eligible ADU development.
- C. All program information will be offered in English and Spanish.

4. Conflict of Interest Requirements

Town employees excluded from participation in the Program include the Town Manager and the Assistant to the Town Manager and members of the Town Council. Other Town employees are eligible to participate in the Program.

5. Non-Discrimination Requirements

The Program will be implemented in ways consistent with the Town's commitment to non-discrimination. No person shall be excluded from participation in, denied the benefit of, or be subject to discrimination under any program or activity funded in whole or in part with Town

funding on the basis of age, ancestry, color, creed, physical or mental disability or handicap, marital or familial status, medical condition, national origin, race, religion, gender or sexual orientation or any other arbitrary cause.

6. Applicant (Borrower) Qualifications

In order to be eligible for the Program, an Applicant must:

- A. Own a Property within Truckee town limits.
- B. Be working toward creating a new ADU or JADU on their Property.
- C. Be willing to place a deed restriction on the Property to rent for a period of 7 or 10 years to a qualified tenant.
- D. Have adequate credit, equity and income to qualify for the Program. If the cost of ADU construction exceeds the maximum loan amount of \$50,000, the Applicant must demonstrate the source and amount of other funding to complete construction and occupancy by an eligible renter. The Applicant's home must have sufficient equity to secure the Program loan. Should an appraisal be necessary in order to evaluate equity, the cost may be included as a Program loan eligible expense. Proposed rents from the ADU dwelling can be used to offset the proposed loan obligation.
- E. There are no income limitations or requirements for the Applicant.
- F. Applicant is NOT required to occupy the Property (main dwelling) as their primary residence.

7. ADU Location and Characteristics

- A. ADUs must be located on a parcel that is geographically located within the town limits of the Town of Truckee.
- B. ADUs may be new construction or result from remodeling an existing dwelling unit or the conversion of an existing structure as long as the ADU is located on the Property.
- C. All ADUs permitted with Program funds must comply with current State and local ADU development codes, building codes and standards in place at the time of permitting.
- D. The ADU must be permitted as a separate and independent living unit meeting all Town requirements of an ADU, including but not limited to a separate entrance, address, etc. Note: Renting a bedroom or part of an existing home that does not meet all Town requirements as an ADU is not eligible.

8. Application Process & Loan Process

The Town will post information and applications on the Town Housing Program webpage.

Applications will be processed on a first-come-first-served basis until December 31, 2025, or until Program loan funds are exhausted.

The application process will be as follows:

Step 1: Applicant submits a completed ADU Loan Intake Form to Town staff for review.

Step 2: If the ADU project meets the preliminary criteria for the loan, applicant will be notified and will receive a request for financial⁽¹⁾ and project documents from the Town's Program Administrator. Loan funds are NOT reserved at this time. These documents include:

- Completed Fannie Mae loan application (1003)
- Verification of equity in the home (may require an appraisal)
- Preliminary title report to document ownership and property status
- Pre-approval letter from lender providing construction loan financing for project OR source of funds for project costs
- Cost breakdown of project
- Complete set of plans
- Credit report
- Proof of ownership of the Property (e.g. grant deed, mortgage statement)
- Application Disclosure & Authorization Form
- Information Release Authorization Form
- Signed and dated letters of explanation for any derogatory items
- Proof of clean mortgage history from the last 12 months
- Photocopy of valid ID's (driver license or passport)
- Income verification documents including: Most recent year's federal tax returns (all schedules), 30-day most recent pay stubs, W-2.
- Most recent mortgage statement,
- Homeowners insurance declarations

Step 3: Program Administrator will review documentation and will issue a loan approval or denial. Additional documentation may be required for verification. If approved, applicant will receive loan acceptance documents that must be returned to program administrator within 7 days. Loan funds will be held at this point and the Applicant will become the Borrower.

(1) Financial documents must be dated within 30 days of submission of complete application package.

Step 4: Borrower signs Deed Restriction, Promissory Note, Deed of Trust, and Notice of Default. Program Administrator will ensure recordation with Nevada County Recorders Office. Borrower will pay the fee for recording loan documents with Nevada County. Loan document processing fees can be covered by loan funds.

Step 5: Payments are made as laid out in Section 17.

Step 6: At Certificate of Occupancy, 10% contingency is released.

9. Construction Milestones Requirements

To ensure responsible use of Town funds, borrower must adhere to the following timeline in order to receive all loan funds. If a required construction milestone is not met, the loan will be canceled and repayment must begin as outlined in Section 16. If a construction milestone is not met due to circumstances beyond the borrowers' control, such as supply chain issues or natural disasters, and progress is being made on the ADU project, an extension may be granted at staff's discretion.

1. Applicant must submit building permit application within 6 months of loan approval
2. Building permit must be issued within 12 months of loan approval
3. First inspection must be scheduled within 18 months of loan approval
4. Certificate of Occupancy issuance:
 - COO issued within 30 months of loan approval for new construction
 - COO issued within 24 months of loan approval for conversion of existing space or an existing, unpermitted ADU

10. The Program Loan

Each loan is for a maximum of \$50,000. If the cost of the ADU development and construction exceeds the maximum loan amount the applicant must demonstrate the source and amount of other funding to complete construction and occupancy by an eligible renter.

Loans made with this Program are forgivable if the Applicant meets all requirements within the loan term.

A. Loan Terms, Interest Rates, and Forgiveness

- a. The loan term will commence following the issuance of a building permit for the Project and upon execution of the Promissory Note, Deed of Trust, and Deed Restriction.
- b. The two options for loan term and forgiveness of the program loan are as follows:
 - i. A 1% annual (simple) 7-year loan. Both principal and interest will be forgiven at 14.3% per year, contingent upon receipt of a building permit for the ADU and continued compliance with the deed restriction requiring the ADU be rented to tenant(s) making 60% of the area median income (AMI) or below and meeting the local employment qualification.

- ii. A 2% annual (simple) 10-year loan. Both principal and interest will be forgiven at 10% per year, contingent upon receipt of a building permit for the ADU and continued compliance with the deed restriction requiring the ADU be rented to tenant(s) making 120% of the area median income (AMI) or below and meeting the local employment qualification.
- c. Loan forgiveness will commence three hundred and sixty-five (365) days after the issuance of the Certificate of Occupancy and the commencement of the Deed Restriction term.
- d. If the property is sold before the loan term matures, the property owner is responsible for paying the remaining balance of the loan, including both the principal and the interest, at the time of the sale.
- e. No direct loan fees will be charged to the borrower. Also, there is no pre-payment penalty on the loans under this program.

11. Loan Requirements

The Program loan shall be secured by a promissory note and deed of trust on the Applicant's Property (same parcel as the ADU to be constructed). The Applicant's home must have sufficient equity to secure the Program loan. The Program Administrator may request in the Applicant documentation that the Applicant verify equity in the home and may require an appraisal.

A preliminary title report will be required by the Town documenting ownership and status of the Applicant's Property. The cost of the preliminary title report, as well as escrow fees, shall be the responsibility of the Applicant and are Program loan eligible expenses. Other documents will be required to process the loan and Town staff will work with the Applicant to clarify this list.

12. Lien Position

The lien securing the repayment of the Program loan shall be in second place unless the Town agrees to be in third place, which will be considered if there is a lien or deed restriction in place as part of a down payment assistance program

13. Deed Restrictions/Deed of Trust

- A. The Program requires that the Workforce Housing Unit be rented or leased to a program Qualified Tenant household. For ADUs to be occupied by renters up to 60% AMI the deed restriction term is a period of seven (7) years. For program loans made for ADUs to be occupied by renters up to 120% AMI the deed restriction term is ten (10) years. The recorded Deed Restriction document shall include the requirement that the Qualified Tenant household's income and geographic location of employment be verified prior to occupancy for the purpose of compliance with Program requirements and that the Qualified Tenant household occupy the Workforce Housing Unit as their primary residence.

- B. The recorded deed of trust document shall include the requirement that the Qualified Tenant household's income and geographic location of employment be verified prior to occupancy for the purpose of compliance with Program requirements and that the Qualified Tenant household occupy the Workforce Housing Unit as their primary residence.
- C. The deed restriction term will commence upon issuance of the final Certificate of Occupancy. The deed restriction will run with the property for the full term of either ten or fifteen years. If the Program loan is paid off either at term, prior to term, or when the Property is sold or changes title during the term, the deed restriction remains in place for the entire term.
- D. Default: For a full account of the default process, including the Deed Restriction violations, Notice & Cure, Remedies, and Liens, refer to the ADU Program Deed Restriction. The following is an overview of the default process.
 - a. Default: A default on the Property by Owner includes breach of the covenants set forth in the Deed Restriction, including:
 - i. Any use or occupancy of the Workforce Housing Unit in violation of Section 9 above.
 - ii. Failure to submit an annual certification of occupancy and use.
 - iii. Any action by the Owner to encumber the Property in a manner that conflicts with the terms of the Deed Restriction or these Guidelines or renders compliance with the terms of the Deed Restriction impossible or impractical.
 - iv. Refusal to make all repairs and replacements necessary to keep the Property in good condition and repair.
 - v. Failure to maintain required fire or flood insurance or failure to pay property taxes.
 - b. Encumbering the Property with any lien not approved by Town.
 - c. Notice and Cure: If a Deed Restriction violation is discovered, the Town will notify the Owner using the process outlined in the Deed Restriction, giving the Owner an opportunity to correct or appeal the violation(s).
 - d. Remedy: In the event of violation of the Deed Restriction by the Owner that is not cured or successfully appealed, if the owner of the Property defaults on the Deed Restriction, the property owner is responsible for paying the remaining balance of the loan, including both the principal and the interest. Additionally, the Town has the right to pursue damages, including but not limited to, attaching a lien to the Property and pursuing liquidated damages.

14. Program Loan Repayment

- A. Loans Due Upon Sale, Transfer, and/or Default
 - a. When Applicant sells the property and/or transfers title, the Applicant is responsible for paying the remaining balance of the loan, including both the principal and the interest, at the time of the sale or transfer.

- b. If the owner of the Property defaults on the Deed Restriction (Section 6.4.c), the Property owner is responsible for paying the remaining balance of the loan, including both the principal and the interest.
- c. Loans are not assumable.
- d. The following transfers of interest shall not require immediate repayment of the Program loan:
 - i. A transfer where the owner's spouse becomes an owner of the Property;
 - ii. A transfer resulting from a decree of dissolution of marriage, legal separation agreement, or from an incidental property settlement agreement by which the owner's spouse becomes an owner of the property; or
 - iii. A transfer into an "inter vivos" trust, which the borrower is and remains the beneficiary of the property.

B. Receiving Loan Payments

- a. Program loan payments will be made to:
 - Town of Truckee
 - Administrative Services
 - 10183 Truckee Airport Road
 - Truckee, CA 96161
- b. The Town of Truckee will be the receiver of loan payments and will maintain a financial record-keeping system to record payments and file statements on payment status. The Town will accept payments from Applicants making loan payments and from Applicants making payments in full upon sale, transfer of property or loan term. All loan payments are payable to the Town of Truckee.

15. Program Loan Processing and Approval

Once the Program loan package has been completed and reviewed by the Program Administrator, the package will be submitted for loan processing. The Town will review the request and may approve it with or without conditions.

16. Escrow Procedures

The Applicant will sign the promissory note, deed of trust, deed restriction and statutory lending notices. The deed of trust, deed restriction and request for notice will be recorded with the Nevada County Clerk/Recorder.

The Town will select an escrow/title company, which shall review the escrow instructions provided by the Program Administrator and shall issue an American Land Title Association (ALTA) policy after closing. The ALTA policy will be issued to the Town (lender) providing additional coverage for the physical aspects of the property. These aspects include anything which can be determined only by physical inspection, such as correct survey lines, encroachments, mechanics liens, mining claims and water rights. The Town will instruct the escrow/title company in the escrow instructions as to what may be written in the policy including

the amount of insurance on the policy (all liens should be covered). The Town of Truckee must be added as loss payee on the Applicants current homeowners insurance policy.

The escrow instructions shall require proof of fire and flood insurance (if property is within 100-year flood plain) that covers all liens, including the Program loan, and names the Town of Truckee as additional insured, be provided to the Town prior to closing escrow.

17. Program Loan Proceeds Distribution

The Town of Truckee Administrative Services Department will be the fiscal agent for the distribution of Program loan proceeds and will follow the following procedure:

- A. No loan proceeds will be disbursed until the Applicant has been issued their building permit for the Project and the Program loan documents are recorded.
- B. Once the Applicant has obtained the required building permits from the Town, the Applicant may commence work on the ADU.
- C. Once the Applicant has obtained the required building permits from the Town, the Applicant may commence work on the ADU.
- D. Invoices for Program loan proceeds will be processed in the following manner:
 - a. Invoices for pre-development costs shall originate from the respective licensed professional (e.g. architect or engineer) or agency
 - b. Invoices for development costs shall originate from the Applicant's primary contractor and be numbered and dated for the work completed to date and submitted to the Applicant.
 - c. There will be a maximum of four draws total and the minimum draw request amount is \$7,500.00.
 - d. The Applicant will provide written approval of the invoice and the work completed as invoiced and then forward to the Program Administrator.
 - e. The Program Administrator will conduct a site visit and/or verify that the work has been completed as invoiced to date.
 - f. The Program Administrator will obtain Town approval of invoice payment and submit to Administrative Services for payment.
 - g. Administrative Services will make loan payment in the form of a check made to the Applicant.
- E. If the total budget for the project exceeds the Program loan amount, invoices will be paid on a pro-rata basis. For example, if the Program loan amount is 80% of the total cost; 80% of each invoice will be paid with Program loan proceeds.

- F. The Town will withhold ten percent (10%) of the Program loan distribution of each invoice until both a Certificate of Occupancy (COO) has been issued for the ADU and a Notice of Completion has been filed and recorded.
- G. Loan proceeds will not be released or paid without a verified invoice..
- H. If the building permit expires and no COO has been issued, the loan will be immediately due and payable in full.

18. Qualified Tenant Occupancy Requirements

In the program application, the Applicant will designate either the Property's ADU or primary residence as the Workforce Housing Unit for the purposes of this Program. The Applicant shall rent the Workforce Housing Unit to a Qualified Tenant pursuant to the requirements of this section. Although the deed restriction includes income, lease term, and workforce requirements, the selection of the Qualified Tenant occupant is entirely up to the Applicant.

- A. The Qualified Tenant must occupy the Workforce Housing Unit as their primary residence, full-time, a minimum of 10 out of 12 months out of a calendar year. The unit can be rented to different qualified tenants during the loan term, but the initial lease period must be a minimum of 12 months and can be month-to-month thereafter with the same tenant. All leases must be in writing. Short-term renting, renting as a bed and breakfast inn, or sub-renting/leasing is not allowed under any circumstances.
- B. Qualified Tenant Income Level: The Applicant must rent to a Qualified Tenant household making no more than 60% or 120% of AMI of Nevada County, depending on the term of the program loan. Current income limits are available on the Town's website. Maximum income limits are calculated based on State income levels published annually by the California State Department of Housing and Community Development.
- C. Geographic Location of the Employer: At least 50% of the people over 18 who are not full-time students must work at least 20 hours per week or meet the half-time employment equivalency with employer verification or 50% for an employer based in the Tahoe Truckee Unified School District (or equivalent amount over a period of a year).

19. Occupant Verification Process

The Town will verify the potential occupant's income and geographic place of work prior to the Applicant executing the rental/lease agreement using the following process:

The Applicant will advertise the Workforce Housing Unit as a long-term rental and explain Program requirements in the announcement. Once a pool of potential tenants has applied, Applicants will make a preliminary selection and will send potential tenant's contact information to the Town to initiate eligibility verification.

- A. The Town will contact the potential tenant(s) for income verification documentation as well as the location of the tenant(s) place of work. Under no circumstances will the Applicant conduct their own income verification of tenants. The income verification

conducted by the Town shall be confidential and used for compliance with Program requirements.

- B. The Town will complete the required tenant verification and notify Applicant if tenants meet Program qualification requirements.
- C. It is up to the discretion of the Applicant to choose the final Qualified Tenant, as long as the tenant meets the eligibility criteria set forth in Section 9 above.
- D. The occupant's income shall be verified for compliance with Program requirements at the time of initial occupancy only. Annual income verification is not required.
- E. The occupant income and local employment verification process is required each time the ADU occupancy changes.
- F. The Applicant should include in the rent/lease application that the Workforce Housing Unit occupant's income will be verified by the Program Administrator.
- G. The Applicant shall submit a certification of occupancy and use, including a copy of the rental/lease agreement, on an annual basis to the Administrator that includes the term of the lease agreement, rent amount and occupant(s) name(s). This documentation shall be due no later than January 31st of each year for the previous calendar year.

20. Workforce Housing Unit Rent/Lease Amount

Monthly rent charged must not exceed 30 percent of the current Nevada County annual area median income level for either 60% or 120% AMI, divided by 12 months adjusted for bedroom count.

- Maximum Rent Calculation for Workforce Housing Units deed restricted to households making up to 120% AMI
Maximum Rent = Annual Income Cap ÷ 12 x 0.3
Annual Income Cap = [Household Size at 120% AMI for Nevada County](#)
Household Size = Workforce Housing Unit bedroom count + 1
- Maximum Rent Calculation for Workforce Housing Units deed restricted to households making up to 60% AMI
Maximum Rent = Annual Income ÷ 12 x 0.3
Annual Income = [Household Size at 60% AMI for Nevada County](#)
Household Size = Workforce Housing Unit bedroom count + 1