

# Frequently Asked Questions Accessory Dwelling Units (ADUs)



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## **What is Vermont Housing Improvement Program (VHIP) 2.0?**

The Vermont Housing Improvement Program (VHIP) 2.0 provides grants and 0% interest loans up to \$50,000 per unit to property owners to create affordable rental units. The program is flexible and allows for several ways to bring rental units online including rehabbing units with code violations, converting non-residential structures to residential units, and building new structures with up to 5 rental units. Apartments and homes funded with VHIP 2.0 must be available as long-term rentals at an affordable rate, and the property owner must provide a 20% match of grant funds.

## **How much funding are projects eligible for?**

Accessory Dwelling Units (ADUs) are eligible for up to \$50,000.

## **What are the differences between a 5-year grant and 0% interest 10-year forgivable loan?**

Both a forgivable loan and a grant provide funding to complete VHIP 2.0 projects. Forgivable loans work similarly to grants because there isn't a loan committee, credit check, etc. Grants may be converted to a forgivable loan upon approval by the Department of Housing and Community Development (DHCD). Learn more [here](#).

The primary difference between the grant and forgivable loan option is the compliance period. Compliance periods go into effect on the date the unit is first occupied. Forgivable loans have a 10-year compliance period. Grants have a 5-year compliance period and have an additional requirement to work with the Coordinate Entry organization to find a suitable tenant exiting homelessness. For the entirety of the compliance period, you must rent at or below United States Department of Housing and Urban Development (HUD) Fair Market Rent and follow the other program requirements. Review the [Program Requirements](#) section to learn more. A Fair Market Rent Calculator is available on [DHCD's website](#). To use the calculator, you must complete the utility worksheet, which indicates which utilities the tenant is responsible for payment. Once the utility worksheet is complete, the calculator will show the maximum allowable rent based on the county the unit is located in and the number of bedrooms.

**Both forgivable loans and grants are taxable income. However, they may have different tax implications. You are strongly encouraged to seek advice from a tax professional to help determine whether the grant or forgivable loan option would be more advantageous for you.**

## **Are Accessory Dwelling Units (ADUs) exempt from the requirement to find a suitable tenant exiting homelessness?**

ADUs that select the 5-year grant option are NOT exempt from the requirement to work with a Coordinated Entry (CE) organization to find a suitable tenant exiting homelessness. ADUs that select the 10-year forgivable loan option do not have the requirement to work with the CE organizations.

## **How does a forgivable loan work?**

The 0% interest forgivable loan offered through VHIP 2.0 is forgiven at 10% per year. The unit would need to comply with the program requirements for 10 years for the loan to be forgiven in its entirety. Funds will need to be repaid to the State of Vermont for every year the program requirements are not

met or if you decide to leave the program before the end of the 10-year compliance period. For example, if an owner only leases the unit at or below Fair Market Rent for 7 years, 3 years (30%) of funding will need to be repaid to the State of Vermont. These funds will need to be repaid at the time you exit the program in one lump-sum payment.

### **How are 5-year grants converted to forgivable loans?**

Upon approval from the Department of Housing and Community Development (DHCD), grants may be converted to a 0% interest forgivable loan. Once a grant is converted to a forgivable loan those units no longer have the requirement to rent to a household exiting homelessness. To convert a grant to a forgivable loan, you must send a letter to DHCD requesting conversion and explaining the reasons for the request. If approved, DHCD will pro-rate the forgiveness of the loan for years already in service, at 10% for every year the unit was in compliance with the grant requirement (1 year of grant = 10%). For example, if a property owner received \$50,000 and maintained the grant requirements for 2 years, 20%, or \$10,000, would be forgiven. The unit would now need to comply with the forgivable loan terms for 8 more years for the remaining \$40,000 of funding to be forgiven completely.

### **What are the program requirements?**

VHIP 2.0 requires participants to:

- Match 20% of the award funds
- Sign a rental covenant or forgivable loan agreement stating they will charge a rent at or below Fair Market Rent for the duration of the agreement (5 or 10 years)
- Complete short, interactive Fair Housing Education videos
- Complete the project within 18 months of the signed agreement
- Follow the tenant selection criteria

Additional requirements for the 5-year grant option:

- Find a suitable renter exiting homelessness through a Coordinated Entry (CE) Lead Organization or a suitable tenant actively working with an immigrant or refugee resettlement program. This arrangement shall continue at unit turnover for a minimum of 5 years from the date the unit is first occupied.

### **What expenses are considered eligible towards the 20% match requirement?**

Any expense related to an approved VHIP 2.0 project incurred after the grant agreement is signed can be considered towards the match requirement. You can match the grant funds in several different ways. You can pay for the expense out-of-pocket, apply for a loan to cover the match requirement, through sweat equity (working on the project), or use another grant to cover the expense. Expenses incurred before the signing of the grant agreement will NOT be considered eligible toward the match requirement (or for reimbursement), with the exception of some pre-development costs.

Pre-development costs, including permitting or zoning fees, hiring an engineer/architect, etc., may be eligible as long as there is documentation of the work and the work was completed after the grant application was submitted. A complete application does not guarantee approval, so doing any work before signing the grant agreement poses a risk.

### When is the 20% match requirement due?

Approved VHIP applicants must provide a 20% match of grant funds **before requesting any program funds**. For example, if you are approved for a \$50,000 grant, you will be required to a \$10,000 match before any grant funds are disbursed.

### How do I file a rental covenant or forgivable loan agreement?

First, you should connect with your Homeownership center to get a template for the rental covenant (5-year grants) or forgivable loan agreement (10-year forgivable loans). Once you have filled out all the necessary information in the template, you should contact the town where the property is located to file the rental covenant or forgivable loan agreement. **Once the agreement is filed in the land records, you must share a copy with your Homeownership Center.**

### What happens if I choose the 5-year grant option, and I can't find a suitable tenant through the Coordinated Entry (CE) referral process?

If you are unable to identify a suitable tenant through the CE referral process, you may submit a waiver request to the Department of Housing and Community Development (DHCD). If this waiver request is approved, you must then lease the unit to a household with an income equal to or less than 80% of the area median income. If such a household is unavailable, you may lease to another household, with the approval of DHCD.

### What is considered an eligible unit?

An Accessory Dwelling Unit (ADU) is a smaller, independent dwelling unit that is located on the same lot as an existing single-family home. The single-family home must be owner-occupied to meet the Vermont definition of ADU and to be eligible for the ADU portion of VHIP 2.0. ADUs can take several forms, as depicted in the image below. For example, an ADU may be located on a separate floor, in a garage, a basement, an addition, or in a detached unit, like a converted carriage barn.



Adapted from: Wake County North Carolina. (2023). Ready to Apply for an ADU. <https://www.wake.gov/departments-government/planning-development-inspections/inspections-permits/accessory-dwelling-units/ready-apply-adu>

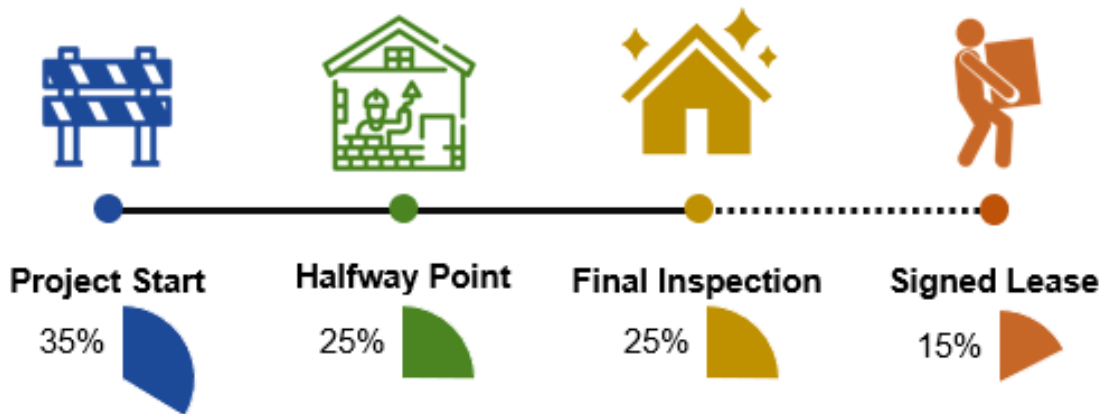
## Can a family member move into an ADU built through the program?

This depends on the type of award selected. With the 5-year grant option, you are required to work with Coordinated Entry organizations to identify a suitable tenant exiting homelessness. ADUs selecting the 10-year forgivable loan can be used for family members.

## How are VHIP 2.0 funds disbursed?

**VHIP 2.0 funds are disbursed on a reimbursement basis at certain points during approved projects, so you will need to have the capital upfront to cover these expenses until you receive reimbursement.**

Funds will only be disbursed once the 20% match requirement has been met. To receive reimbursement for the work on your VHIP unit, you must submit invoices or receipts documenting the expenses.



VHIP grants and forgivable loan funds are disbursed at four different points during the project:

- 35% when the project starts
- 25% at the halfway point of the project, subject to the property owner returning the fully executed and notarized original Subsidy Covenant to the HOC
- 25% upon satisfactory final inspection of the unit to ensure it complies with the agreed upon scope of work
- 15% once all receipts have been shared with the HOC, all code and occupancy inspections have been completed, and a lease for the apartment has been signed

## Who determines the scope of work and selects the contractor?

The property owner should apply with a basic idea of the work that needs to be completed to bring the unit in compliance with Vermont Rental Housing Health Code guidelines. The Homeownership Center you are working with will conduct a site visit to verify that the scope of work meets program guidelines and identify any other items that may need to be addressed. The property owner must select the contractor and have a contract that ensures project completion within 18 months of signing the grant agreement.

## **What role do building codes and local officials play in developing the scope of work and permitting for my project?**

Completed units must comply with the Vermont Rental Housing Health Code and local ordinances. The town health officer and regional Division of Fire Safety officer will inspect your rental units to help ensure you don't overlook any provisions of the Vermont Rental Housing Health Code and other life-safety codes when you are developing the scope of work for your project. **It is important to note that these officials will inspect the entire property that abuts the VHIP project.** You should anticipate that these code officials will inspect your property when the project is complete and approve it for occupancy, so it will be to your benefit to work with them from the start on developing the scope of work and obtaining the proper permits.

## **Do ALL Housing Code Violations need to be addressed in Occupied Units?**

All fire, housing, or health code violations identified in occupied units and common areas must be corrected by law, and owners are subject to fines and penalties if they are not corrected. **This applies even if the owner does not move forward with the VHIP 2.0 program.** Applicants are encouraged to discuss their project with their local HOC before scheduling an inspection.

## **What is the deadline for construction?**

Repairs and construction should be completed, with the unit ready for occupancy, within 18 months from the date the VHIP 2.0 grant agreement was signed.

## **What happens if I don't meet this deadline?**

If construction is not completed by the deadline, you will forfeit the undisbursed remainder of the grant funds. Project deadlines can be extended on a case-by-case basis if you can show there was a good-faith effort to complete the project within the agreed-upon timeframe. Once a plan to complete the project within a new timeframe has been established, you must complete a Project Extension Form. The form must be submitted to your Homeownership Center (HOC).

## **Who reviews and approves or denies the extension request?**

For project extension requests under 6 months, the HOC will review and approve or deny the extension request. For extension requests greater than 6 months, the HOC will sign the Extension Request Form to show they approve of the new plan to complete the project, and the Department of Housing and Community Development will review it.

## How do I apply to receive VHIP 2.0 funding? Which Homeownership Center should I work with?

Please contact your local Homeownership Center to learn more about VHIP 2.0 and receive application assistance.

Counties Served	Homeownership Center	Contact Information
Caledonia, Essex, and Orleans Counties	<a href="#">RuralEdge</a>	<a href="mailto:rentalrehab@ruraledge.org">rentalrehab@ruraledge.org</a> <a href="tel:802-535-3555">802-535-3555</a>
Chittenden, Franklin, and Grand Isle Counties	<a href="#">Champlain Housing Trust</a>	<a href="mailto:vhip@getahome.org">vhip@getahome.org</a> <a href="tel:802-810-8217">802-810-8217</a>
Addison, Bennington, and Rutland Counties	<a href="#">NeighborWorks of Western Vermont</a>	<a href="mailto:info@nwwvt.org">info@nwwvt.org</a> <a href="tel:802-438-2303">802-438-2303</a>
Lamoille, Orange, and Washington Counties	<a href="#">Downstreet Housing &amp; Community Development</a>	<a href="mailto:vsmith@downstreet.org">vsmith@downstreet.org</a> <a href="tel:802-477-1343">802-477-1343</a>
Windham and Windsor Counties	<a href="#">Windham &amp; Windsor Housing Trust</a>	<a href="mailto:info@homemattershere.org">info@homemattershere.org</a>