

# Agenda Report

April 8, 2024

**TO:** Honorable Mayor and City Council

**THROUGH:** Economic Development and Technology Committee  
(March 19, 2024)

**FROM:** William K. Huang, Housing Director

**SUBJECT: APPROVE A MEMORANDUM OF UNDERSTANDING WITH SELF-HELP CREDIT UNION OR ANY QUALIFIED LENDER TO MODIFY LOANS UNDER THE ACCESSORY DWELLING UNIT PROGRAM**

## **RECOMMENDATION:**

It is recommended that the City Council:

1. Find that the recommended action is exempt from the California Environmental Quality Act ("CEQA") pursuant to State CEQA Guidelines per Section 15061 (b)(3), the "common sense" provision that CEQA only applies to projects that may have a significant effect on the environment; and
2. Authorize the City Manager to execute a memorandum of understanding with Self-Help Federal Credit Union, or any qualified lender for optional refinancing of accessory dwelling unit loans from the City, according to the terms and conditions set forth in this report.

## **BACKGROUND:**

In 2020, the Housing Department launched the Second Unit ADU Loan Pilot Program. The program provided four (4) homeowners with comprehensive assistance for design services, project management, and financial assistance for the construction of an accessory dwelling unit (ADU) on their property. Under the program, City-funded construction loans in an amount up to \$200,000 per loan were utilized to build the ADUs. Two of the ADUs were newly created and two were existing unpermitted ADUs brought up to code. For the newly created ADUs, at the end of the 3-year construction loan term, homeowners are required to pay the loan back to the City through refinancing of their existing mortgage. However, interest rates for refinancing have more than tripled since the start of the program, making this option unfavorable or infeasible for the homeowner.

To address this concern, staff met with several financial institutions to develop a financing tool that is affordable to the homeowner and allows the City to assist the construction of more ADUs. Self-Help Federal Credit Union (SHFCU) has agreed to enter into a memorandum of understanding (MOU) with the City to offer a loan product that fits the needs of the program. Through the MOU (Exhibit A enclosed), SHFCU would offer to refinance part of the City's ADU loan as a second mortgage. Homeowners are not required to use SHFCU. The City would modify its loan to leave a deferred payment "silent" third trust deed in an amount not to exceed \$100,000 on the title for a term of 20 years at 0% interest. As a result, the homeowner would have an affordable loan and generate net income from renting the unit. The City would use the partial repayment of its loan from the refinancing with SHFCU to re-lend for construction of more ADUs.

Borrowers desiring to refinance through the SHFCU program (or any other institutional lender that meets the City ADU loan program parameters), shall submit a request to the Department for a loan modification. All transactions will require the final approval of City Council.

**COUNCIL POLICY CONSIDERATION:**

This proposed action supports the City Council Strategic Planning Three-Year Goals in the areas of improving affordable housing throughout the City of Pasadena; and supporting and promoting the quality of life and the local economy.

**ENVIRONMENTAL ANALYSIS:**

The action proposed herein is exempt from the California Environmental Quality Act (CEQA), pursuant to State CEQA Guidelines Section 15061 (b)(3), the "common sense" provision of CEQA which applies to projects which may have the potential for causing a significant effect on the environment. Where it can be seen with certainty that there is no possibility that the activity in question may have a significant effect on the environment, the activity is not subject to CEQA. The recommended action to authorize the City Manager to enter into a Memorandum of Understanding in connection with the refinancing and modification of existing City loans will not have a significant effect on the environment and, hence, is not subject to CEQA.


**FISCAL IMPACT:**

The recommended actions will have no direct fiscal impact.

Respectfully submitted,

  
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William K. Huang  
Housing Director

Prepared by:

  
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Program Coordinator

Approved by:

  
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MIGUEL MARQUEZ  
City Manager

Attachments: (1)  
Exhibit A – SHFCU MOU