

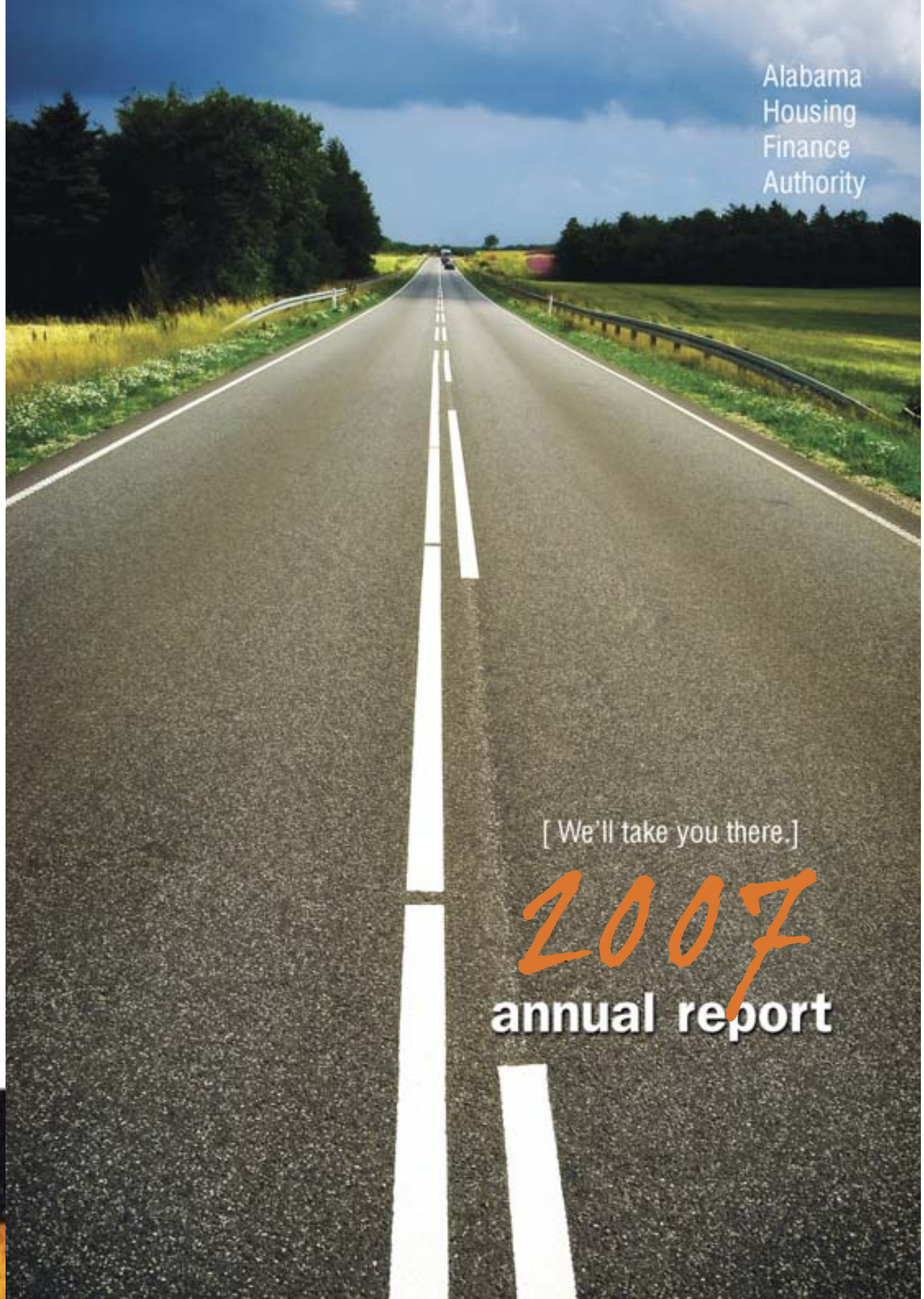
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2007 annual report



Alabama
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[We'll take you there.]

2007
annual report





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2007

has been extraordinary for AHFA—both the single- and multifamily divisions concluded the year with record-breaking production figures.

As the saying goes, every cloud has a silver lining. 2005's Hurricane Katrina put into motion a series of events—such as the addition of funds allocated to AHFA as a result of the Gulf Opportunity Zone Act of 2005—which culminated in our highest annual production ever.

At the close of fiscal year 2007, the single-family division had purchased more than \$300 million in loans through its various mortgage products. In the multifamily division, AHFA allocated \$15.3 million in HOME funds and \$25 million in Housing Credits to fund an impressive 47 developments this year, benefiting more than 3,000 Alabama families.

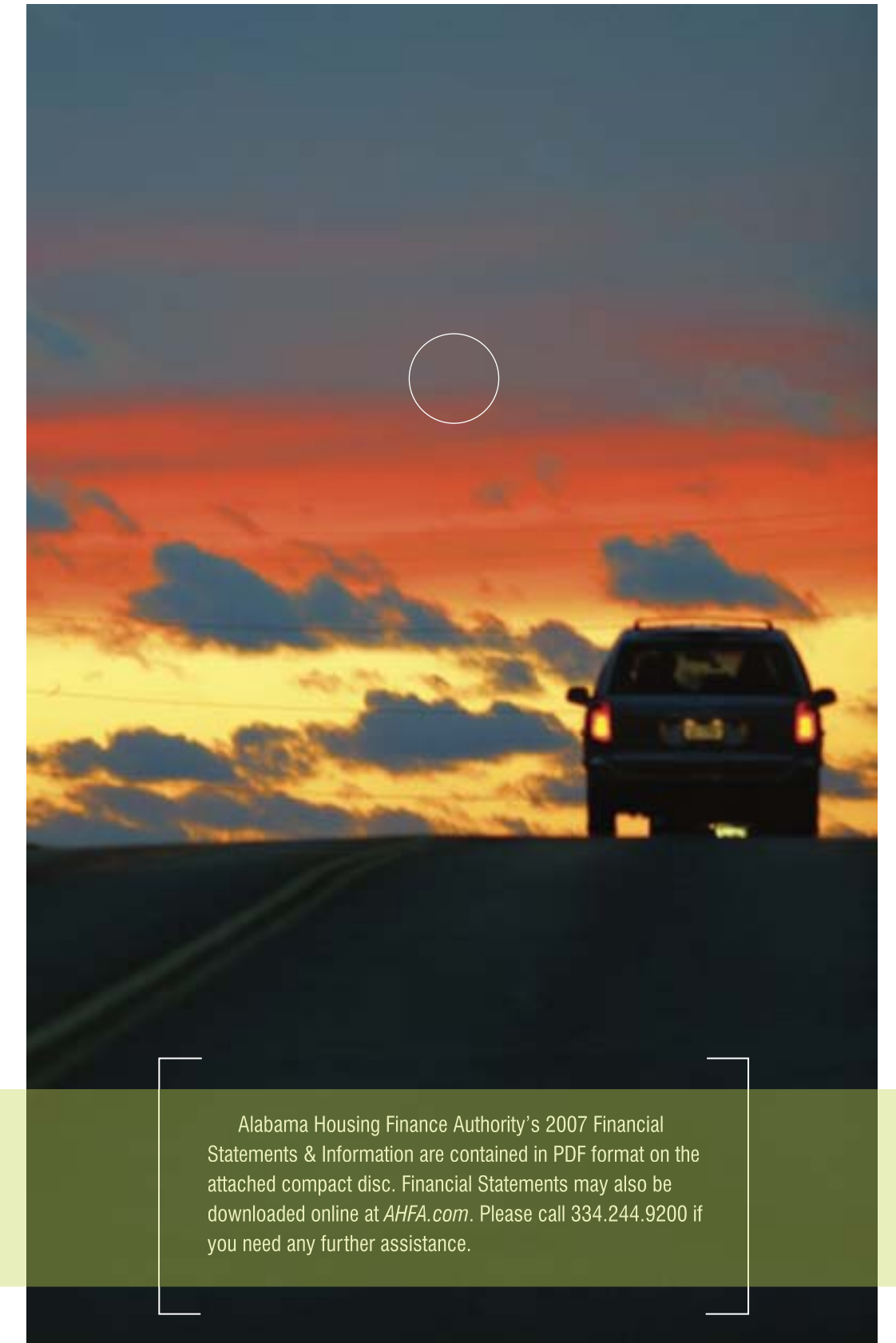
Clearly, the 2007 production numbers are remarkable. However, these are not numbers to rest on. We remain committed to our focus of providing safe, decent and affordable housing for Alabamians.

We are grateful for those who help make our success possible—homebuilders, lenders, developers, investors, real estate agents, public officials and, of course, AHFA's staff and board members. We look forward to working with each of you in the coming year.

Inside this year's annual report, we feature a few of the families who found their way home through our programs. Taking a new approach, we highlight the management team who guided residents through the rehab of a multifamily property in Mobile and also feature an apartment complex under construction with the developer's perspective. Please take a moment and get to know the people that have shared in our success.

Dr. Shelton E. Allred, Chairman

Robert Strickland, Executive Director



Alabama Housing Finance Authority's 2007 Financial Statements & Information are contained in PDF format on the attached compact disc. Financial Statements may also be downloaded online at AHFA.com. Please call 334.244.9200 if you need any further assistance.

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First Step Mortgage Program

[Mortgage Revenue Bonds]

In 2007, over 2,000 families became homeowners with the help of the First Step program.

The First Step Mortgage Revenue Bond (MRB) program, which offers lower-than-market mortgage interest rates to first-time and lower-income home buyers, is the cornerstone of AHFA's single-family programs. To fund this program, AHFA, through the banking community, sells tax-exempt mortgage revenue bonds to investors.

Proceeds are used to purchase mortgages from participating lenders, providing them with the funds to make loans to home buyers.

Recognizing that high down payments are typically the greatest barrier to homeownership, AHFA offers a percentage of the home's sales price in entry cost assistance on First Step mortgages.

AHFA combines low-interest loan funds with 30-year, FHA, VA, Rural Development or conventional mortgages. Since 1980, AHFA has issued more than \$2.7 billion in MRBs to supply mortgage financing to more than 46,500 Alabamians.

In FY 2007, over 2,000 families benefited from more than \$232 million in First Step financing. ●

Justin & Kristina Lawhorn, Montgomery

Newlyweds Justin and Kristina Lawhorn of Montgomery made the decision to begin their married lives in a home of their own, rather than to continue apartment living.

AHFA's First Step program—with its affordable interest rates and down payment assistance—was the ideal option for the first-time homebuyers.

"We decided it would be better to purchase a house than to spend our money paying rent," said Kristina.

"We were surprised at how well things went with the financing. We didn't have one thing go wrong," she said. "And, First Step helped us get a much better interest rate." ●

Montgomery is many miles away from New York, and a whole different world for the Vasquez family.

Fed up with the gang violence that had taken over their neighborhood in New York, Juan and Maribel loaded their belongings into a rental truck and headed south.

"Both of us have lived in apartments all our lives," said Juan. "All we saw was those same four walls all the time."

Less than 10 months after setting foot in their new home town, Juan, Maribel, 12-year-old Tony, and 4-year-old Sophie were unpacking in their first home—a three-bedroom, two-bath brick ranch in the Brighton Estates

subdivision, financed by AHFA's First Step program. By using First Step, the Vasquezes were able to obtain a fixed 30-year, low-interest mortgage and down payment assistance.

"This is the last house we looked at," said Juan. "We liked what we saw. It's roomy and comfortable. "

Move-in day was truly a homecoming for Juan, a native of the Dominican Republic, and Maribel, originally from Honduras, who spent their first week in Montgomery just searching for rental housing. Juan said, "I didn't really believe it until they gave me the keys and we opened the door to our new home." ●



Juan & Maribel Vasquez, Montgomery



Step Up Mortgage Program

Step Up helps those whose incomes can sustain a market-rate mortgage but need help with the down payment and closing costs.

Step Up is Alabama's first down payment assistance program designed specifically for moderate-income home buyers. AHFA provides down payment assistance with no sales price limits and higher income limits than our First Step program. This allows up to 100 percent financing for eligible buyers using FHA, Rural Development or conventional loans.

In conjunction with the up-front funds, AHFA offers a 30-year, fixed-rate first mortgage with an interest rate

slightly higher than current market rate. The down payment funds are secured by a 20-year second mortgage. The loans are blended together, so homeowners have only one check to write each month. Program participants also must complete a homebuyer education workbook.

Since its creation, over 2,200 families have received \$229 million in Step Up home financing, including 520 families in FY 2007. ●

MCCs

[Mortgage Credit Certificates]

Combining AHFA's Step Up down payment assistance program with the Mortgage Credit Certificate's tax credit makes homeownership even more affordable. MCCs reduce the amount of federal income tax that first-time homebuyers pay, giving them more available income to qualify for a mortgage loan.

MCCs provide a direct dollar-for-dollar reduction in federal taxes worth 20 percent of the mortgage interest paid each year. The remaining 80 percent of the interest still can be claimed as a tax deduction.

Participants must meet federally established income and sales price limits and have modest personal assets. Nearly 3,900 households have benefited from this program since first offered in 1989. ●



[The Faison Family, Phenix City]

AHFA's Step Up mortgage program helped Melanie Faison of Phenix City purchase a home large enough to accommodate her growing family while keeping the payments very affordable.

"It was extremely helpful," said Melanie. "With your assistance, I was able to finance an affordable home without paying a high monthly mortgage insurance premium. The ability to amortize the down payment over 20 years allowed for an overall lower monthly payment. This allowed my family to afford more home and purchase what we truly needed."

Melanie's job with NeighborWorks, gave her an insider's view of the loan purchase process. "It was extremely easy," she said. "I have been in the mortgage business for 10 years in some form or fashion—so I know all the things that can go wrong. It did help that I had good credit when I applied and I understood the process."

Yet, that didn't lessen the impact of homeownership on the Faison family—Melanie, Eric, 12-year-old Yasmeen, and 6-month-old Nicholas. Melanie said, "As of today it still feels kind of surreal, I have a fulfilling job, a new

son, and a new home with enough space to do all the things an apartment did not allow. The list of positive effects it has had on my family can go on and on. This was definitely the best decision I have ever made for my family. We love coming home."

Melanie concluded, "In my work I have seen the moderate-income family with good credit have no ability to receive down payment assistance. This is a huge underserved market and the Step Up program offers a refreshing affordable solution." ●



Habitat for Humanity



Through a collaborative effort of AHFA & Habitat for Humanity, AHFA purchases mortgage loans from Alabama's 36 Habitat affiliates. This process allows the affiliates to receive the loan amount up front in a lump sum while AHFA receives the monthly payments for the life of the loan. The affiliate then uses the up-front funds to build more housing for low-income families.

Because AHFA's enabling legislation prohibits the purchase of mortgages from entities other than financial institutions, the Habitat affiliate solicits the assistance of a local lender to serve as a conduit for the sale of the loan. The affiliate sells the mortgage at par to the local bank, which then sells the loan at par to AHFA. Through this process, the affiliate also is able to establish and nurture a relationship with the local lender. This productive cycle unites the local Habitat affiliates, the lending community and AHFA to give Alabama's less fortunate families a hand up into homeownership.

AHFA has provided funding of approximately \$14 million toward this program, the first of its kind in the nation, purchasing 356 loans since 1992. ●



A former Marine, Michael King was no stranger to hard work when he was approved for a home through Habitat for Humanity of Greater Birmingham.

Habitat requires that each partner family complete 300 sweat equity hours before building can begin on their home. "I jumped right on that," said Michael, a single father of three. "I did all of my hours on construction sites."

When asked about the dedication ceremony that was held when construction on his house was completed, Michael is at a loss for words. He said, "It was almost like winning the lottery. I could see that everybody was really happy for us."

That same night, the King family slept in the house for the first time despite the fact that their furniture hadn't been moved in yet. "I was living with my mother before this," said Michael. "And, now I think about how far I've come. Every time I look at this house, I get a happy feeling. I just can't believe how blessed I am."

The King house was one of eight Habitat homes constructed during the Home Builders Blitz. ●

[Michael King, Birmingham]

RAMP

[Rural Alabama Mortgage Program]

The Rural Alabama Mortgage Program (RAMP) is a collaboration of AHFA and USDA Rural Development (RD). It is designed to increase homeownership in the state's rural areas, where access to 30-year, fixed-rate mortgage lending is limited.

AHFA and RD each provide half of the RAMP mortgage, combining their tools to offer the lowest rate available. AHFA also provides up to \$2,000 in interest-free, entry cost assistance to reduce homebuyers' up-front, out-of-pocket expenses. RAMP participants must complete a homeownership education course. RAMP covers rural areas across Alabama—several entire counties are eligible, while in other counties only specific areas are considered rural. RAMP's income limits are set by RD and range from \$13,800 to \$64,000, depending on family size and location. Maximum sales prices range from \$94,000 to \$110,000.

To date, RAMP has funded \$2.9 million in mortgages for 68 families in Alabama's rural areas. ●



[Annette Patton, Enterprise]

Annette Patton spent six months building her credit before purchasing her home in Enterprise. "I had lived in an apartment for five years and my rent kept going up," said Annette. "I just wanted something of my own."

Annette was able to purchase a small home in a quiet neighborhood. "It was pretty scary. I had never borrowed that much money in my life," she said. "But, it was easier than I thought it would be."

The RAMP program also benefited another Wiregrass family—the Popes of Midland City. For Eddie and Marjorie, the idea of homeownership was more practical than financial. They needed more space for their blended family which includes five children. "Being able to afford it and having enough space for five children was the deciding factor for us," said Marjorie. "RAMP helped out tremendously. We love our house." ●



Annette Patton's home in Enterprise



ADDI

[American Dream Downpayment Initiative]

With the federal American Dream Downpayment Initiative (ADDI), AHFA offers first-time home buyers with lower incomes \$10,000 in interest-free mortgage funds to reduce the amount financed. AHFA's ADDI assistance is a 0% interest, five-year, forgivable, subordinate mortgage. The \$10,000 is used to reduce the first mortgage loan's principal balance. For example, a homebuyer who meets the ADDI guidelines and purchases a \$90,000 home would need a first mortgage loan of only \$80,000.

Participants must live in the home and make the mortgage payments for at least five years. They cannot have owned a home in the past three years and must meet federal guidelines for household income. They also must learn the basic responsibilities of buying and maintaining a home through a homeownership education course.

In 2007, AHFA funded more than 30 ADDI loans for a grand total of 220 loans since the program began in 2005. ●



Holly Williams' home purchased through the ADDI program.

[Holly Williams, Hartselle]

An ADDI loan helped Holly Williams and her two children purchase a home after a stint living in rental housing.

"It actually meant the difference between me getting a house and not getting a house," she said. "I couldn't have afforded this without ADDI."

The ADDI program requires that borrowers complete a homeownership education class prior to closing. "You have to take the class and do more paperwork," said Holly. "But, it's well worth it. It has made such a big difference, knowing that at the end of the day you are going to a home you own and your money is not going to waste anymore. My kids and I just love it." ●





Housing Credits

[Low-Income Housing Tax Credits]

Through the Housing Credit program, AHFA helps developers buy land or buildings and build or repair housing to be rented to low-income families at affordable rates. This financial incentive, created by Congress in the Tax Reform Act of 1986, encourages business interests to increase the supply of rental housing for economically disadvantaged families.

Housing Credits provide a dollar-for-dollar reduction in federal tax liability for developers of income-restricted housing. In exchange for the credits, the developer must reserve either 20 percent of the units for residents who earn 50 percent or less of the area's median income or 40 percent of the units for residents who earn 60 percent or less of the area's median income. As administrator of the program, AHFA directs a competitive application process to ensure the credits are distributed throughout the state to areas with the greatest needs.

Since the program's inception, AHFA has issued more than \$152 million in Housing Credits to build or repair roughly 700 apartment complexes housing more than 31,000 families. In FY 2007, AHFA used \$25 million in Housing Credits to fund the construction or renovation of 47 developments, comprising 2,822 units. ●



*Diane Dorgan,
Manager*

POOL RULES
MAXIMUM POOL CAPACITY 75
1. No diving or high dives. Swim at your own risk.
2. Children must be supervised. Children 12 and under are not allowed in the pool without a legal guardian present (NCL, lifeguard, or parent, C.O. or adult sibling).
3. No alcohol, drugs, or illegal substances.
4. No profane or abusive language. Any violation will result in immediate removal from the pool.



[Autumn Chase Apartments, Mobile]

The residents of Mobile's Autumn Chase Apartments have endured a tumultuous two years—starting with Hurricane Katrina in September 2005. Then began a ten-month-long renovation, financed in part by Housing Credits administered by AHFA, of the 23-year-old complex.

“The project needed a substantial amount of work including new HVAC, electrical upgrades, new exterior siding, new roofs, all new kitchens, hurricane windows, carpet, landscaping and common area upgrades—pretty typical for projects dated from the early 80s,” said developer Steven Hydinger.

The construction crews tackled one building at a time. As a building was completed, residents were

immediately moved in. Throughout this process, approximately 80 percent of Autumn Chase's 120 units remained occupied. “The frustrating thing was transferring the residents from one building to another,” said manager Diane Dorgan. “If it hadn't been for our residents, it would have really been a headache. However, our residents were wonderful and made it a really smooth transition.”

The improvements have created new interest in the development. Today, the waiting list for potential tenants is filled. “Everybody deserves a nice place to live,” said Diane. “Autumn Chase is that and so much more.” ●



HOME Funds

[HOME Investment Partnerships Program]



HOME, a federally funded program, provides participating jurisdictions like Alabama with annual allocations which may be used by developers to buy land and build affordable housing.

AHFA has been designated to administer the HOME program for the state of Alabama. Its responsibilities include developing an annual, comprehensive demographic survey and long-range strategy to address affordable housing needs.

AHFA distributes HOME funds through a competitive application process, and monitors the apartment complexes closely to ensure that they operate under the law, renting their units to low-income families at affordable rates.

Alabama is one of several states choosing to combine HOME funding with another multifamily housing program—Housing Credits. This method of stretching scarce resources is just one example of the measures AHFA takes to ensure its programs benefit the greatest number of Alabamians possible.

Since the program's creation, Alabama has been awarded roughly \$219 million to finance approximately 8,500 apartment units in 222 complexes. Nearly 500 families and elderly and handicapped citizens will benefit from \$15.3 million in 2007 HOME funds AHFA committed to build 11 new complexes. ●



Annie Williams



Jo Hudson



[The Veranda Apartment Homes, Troy]

The word “veranda” conjures images of a quiet place for relaxation. That’s exactly what The Veranda Apartments in Troy has become for its residents. Neighbors Annie Williams and Jo Hudson are comfortable enough to leave their doors open in anticipation of the other visiting. The Veranda’s 42 units are reserved for elderly citizens in the Pike County area. Its construction was financed in part by \$1.4 million in HOME funds.

“I can’t put it into words how much I like living here,” said Annie, who moved from Florida to Troy to be closer to family. “I really appreciate this place.”

Jo said, “I like it here very much. I just enjoy it so much.” ●

Multifamily Bonds



AHFA provides financing for multifamily housing through Multifamily Bonds, which offer developers lower-than-market interest rates in exchange for reserving a portion of their units for tenants earning less than the area's median income. Multifamily bonds are issued on a project-specific basis.

Because most of these bonds are tax-exempt, developers receive more favorable interest rates, reducing their interest expense and allowing them to set lower rents. Taxable bonds may be issued as well to offer additional funds for the production of affordable rental housing.

Since the program's inception in 1983, AHFA has issued almost \$850 million in multifamily bonds for developers to purchase, repair or build 111 apartment complexes with more than 17,000 units throughout the state. ●



When completed in Spring 2008, Alison Pointe will offer safe, decent and affordable housing for 128 families in Foley. The development was financed in part by \$8.4 million in 2007 Series B Multifamily Bonds issued by AHFA. ●



[Alison Pointe Apartments, Foley]



“Our experience working with AHFA was extremely smooth. In addition to AHFA staff, who were very considerate and took the time to answer our questions, the legal counsel involved in the transaction were very accommodating as we made our way through AHFA’s Bond Program process. Pedcor Investments is active in the creation of bond-financed affordable housing in 19 states. Yet, this was our first deal in Alabama, and we look forward to a continued development relationship with AHFA.”

--Bill Parrish, Senior Vice President of Development, Pedcor Investments



The Alabama Housing Finance Authority is a public corporation and instrumentality of the State of Alabama created July 25, 1980, by Act No. 80-565. Additional information is furnished in the Audited Financial Statements which accompany the Alabama Housing Finance Authority's 2007 Annual Report.

The bonds of the Alabama Housing Finance Authority are not obligations of the State of Alabama and are not repaid with tax dollars. AHFA is a self-sustaining organization which pays all operating expenses from program revenues.

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