

2006 ANNUAL REPORT





PLAIN & SIMPLE. *We make housing affordable.*

As the state's affordable housing resource, we make it easier for working families to purchase a home of their own like Jay and Emily Wallace or to find a decent apartment like the Billups family in Gordo.

In 2006 alone, more than 19,000 Alabama families benefited from AHFA's various programs. With interest rates rising, this year marked the triumphant return of the Mortgage Revenue Bond program, now known as First Step. Designed for first-time home buyers, First Step has consistently posted rates of less than 6 percent. Move-up buyers and those with higher incomes benefited from AHFA's Step Up program, which was streamlined this year to make it more user-friendly for our lending partners across the state.

As Alabama continues to recover from Katrina, safe, decent and affordable housing remains key to the rebuilding efforts. The Congressional passage of the Gulf Opportunity Zone Act of 2005 provided AHFA with additional HOME funds, Low-Income Housing Tax Credits and supplementary allocation of First Step funds to serve the 11 Alabama counties that were declared disaster areas. In an effort to create housing as quickly as possible in Alabama's hurricane-affected region, AHFA awarded an unprecedented \$34.7 million in Housing Credits—including more than half of its 2007 allocation—along with \$14.9 million in HOME funds to fund nearly 30 developments in the GO Zone.

Our efforts would not be possible without the help of the many lenders, homebuilders, Realtors®, bankers, public officials, developers and investors that are involved in the work we do at AHFA. Although the lending process can be complex, our mission remains plain & simple—to provide affordable housing for Alabama citizens that need it the most.

With this in mind, this year's Annual Report highlights many of our programs and merely a few of the households they served during the past year. However, we realize there is always more work to be done and we are confident that AHFA will continue to recognize and respond to the ever-changing needs of housing in 2007 and beyond.



Dr. Shelton E. Allred, Chairman



Robert Strickland, Executive Director

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By statute, AHFA is governed by a Board of Directors which provides policy direction, authorizes bond issues and program development, and evaluates AHFA efforts. AHFA also has a 53-member staff comprising of five divisions and managed by the executive director.

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 2006 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.

If you are an individual with a disability who needs assistance with this document, please contact the Alabama Housing Finance Authority in writing at www.ahfa.com or Post Office Box 230909, Montgomery, Alabama 36123-0909, or by calling (334) 244-9200 in Montgomery or (800) 325-2432 in Alabama.

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FIRST STEP

Mortgage Revenue Bonds

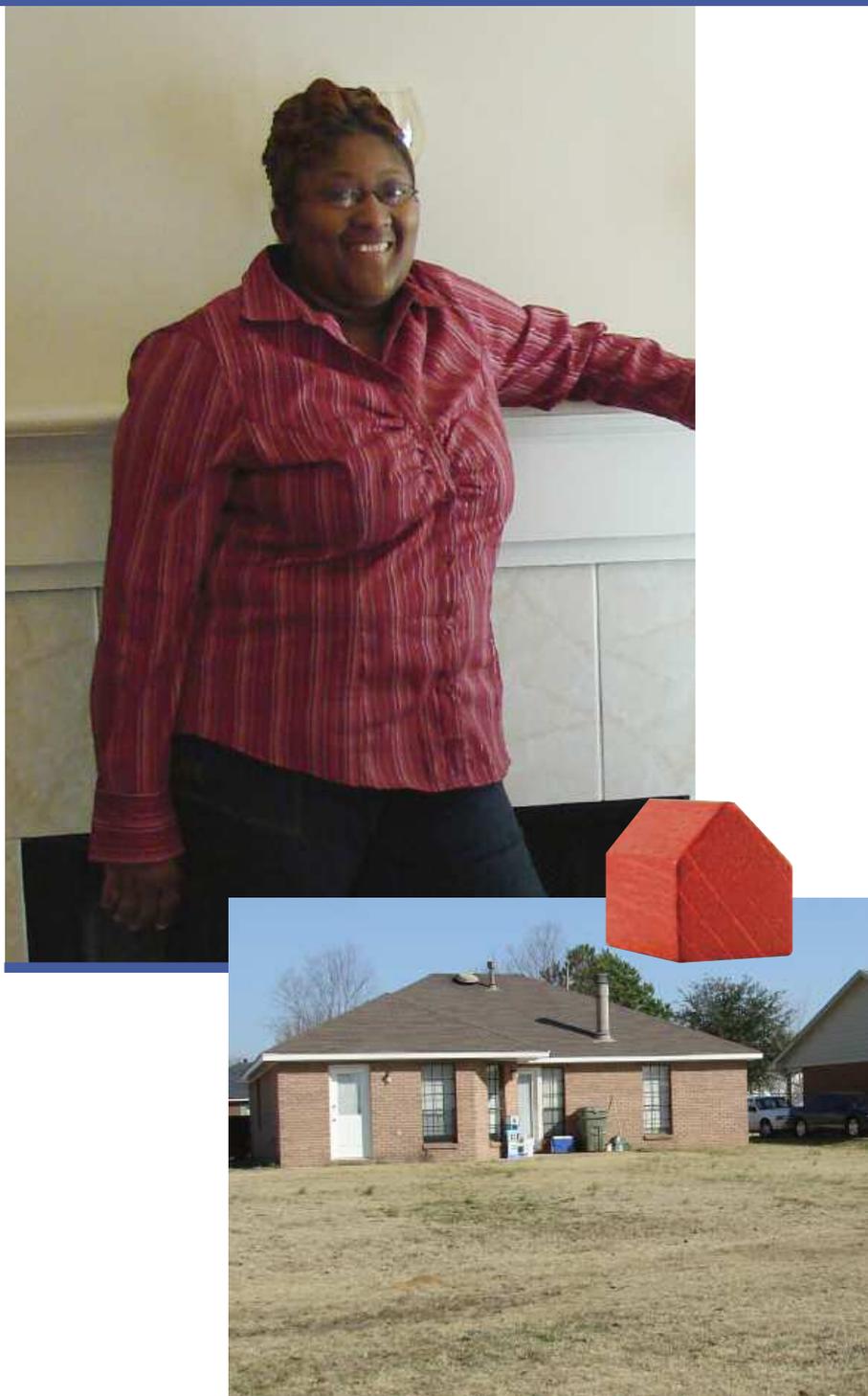
The First Step Mortgage Revenue Bond (MRB) program, which offers lower-than-market mortgage interest rates to first-time and lower-income home buyers, is the cornerstone of AHFA's single-family programs. To fund this program, AHFA through the banking community sells tax-exempt mortgage revenue bonds 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 provides up to 6 percent of the home's sales price in entry cost assistance on every First Step mortgage.

AHFA distributes low-interest loan funds for households through 30-year, FHA, VA, Rural Development or conventional mortgages. Since 1980, AHFA has issued more than \$2.5 billion in MRBs to supply mortgage financing to more than 44,000 Alabamians.

In FY 2006, 400 families benefited from nearly \$44 million in First Step financing.





Nursing student and mother of two Jamenia Duncan spent almost two years repairing her credit just to wade through a mountain of paperwork and look at nearly 20 houses before purchasing her first home.

“I was about to give up,” she said, noting that the tedious loan approval process left her very discouraged.

With the help of her Realtor®, long-time apartment resident Jamenia went from open house to open house trying to find something in a nice neighborhood with a backyard where son Kadarius, 13, and daughter Rubryanna, 4, could play.

Yet, it was in the wee hours of the morning while surfing the Internet that Jamenia finally found a house that caught her interest—a three-bedroom, two-bath ranch in Montgomery’s Vista View neighborhood, located only minutes from her job at a medical clinic.

“I had always wanted to come into this neighborhood,” said Jamenia.

Unfortunately, the Easter egg colors decorating the interior almost caused her to leave after her first visit. However, new carpet, new tile, new paint, and low-interest First Step financing from AHFA helped to seal the deal.

“It was like a brand new house when I moved in,” she said. “At the end, it was worth it. This house was really meant for me. I am so grateful that things worked out so well.”

STEP UP & MORTGAGE CREDIT CERTIFICATES



The Step Up program is Alabama's first down payment assistance package designed specifically for moderate-income home buyers. AHFA provides up to 6 percent of the home's sales price for down payment and entry costs through this 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 which may be just slightly higher than the current market rate. The down payment funds are a 20-year second mortgage. The loans are blended together, so homeowners have only one check to write each month. To help prepare them for the responsibilities of homeownership, program participants also must complete a homeownership education course.

Since its creation, more than 1,700 families have received \$164 million in Step Up home financing, including 338 families in FY 2006.

Combining AHFA's Step Up down payment assistance with the Mortgage Credit Certificate's tax credit makes homeownership even more affordable. MCCs reduce the amount of federal income tax that first-time home buyers 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. More than 3,900 households have benefited from this program since it was first offered in 1989.



As Jay and Emily Wallace were planning their May nuptials, the question of what to do about living arrangements arose. Jay had been living in a one-bedroom apartment, while Emily shared another rental unit with a roommate.

With both still in college, cost was a factor. “After looking at everything, it was going to be cheaper to buy rather than move up to a two-bedroom apartment,” said Jay. “Plus, we wanted something that was ours. We wanted to be able to invest in something and build equity.”

The couple found a house in the heart of Montgomery that met all their needs—a big yard for pets, a good neighborhood, and more square footage. “We liked the neighborhood and the set-up of the house,” said Emily. Yet as working college students planning a wedding, their savings were limited. Fortunately, the Wallaces qualified for 100 percent financing through AHFA’s Step Up program.

“Step Up was the only way we could get a house,” said Jay. Emily added, “We certainly could not have gotten as nice a house without Step Up. We love our house and are very grateful for it.”

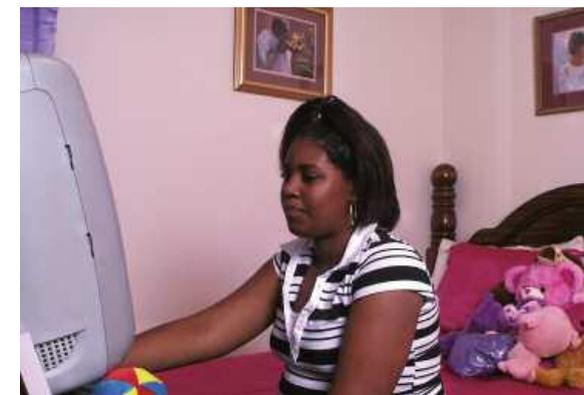
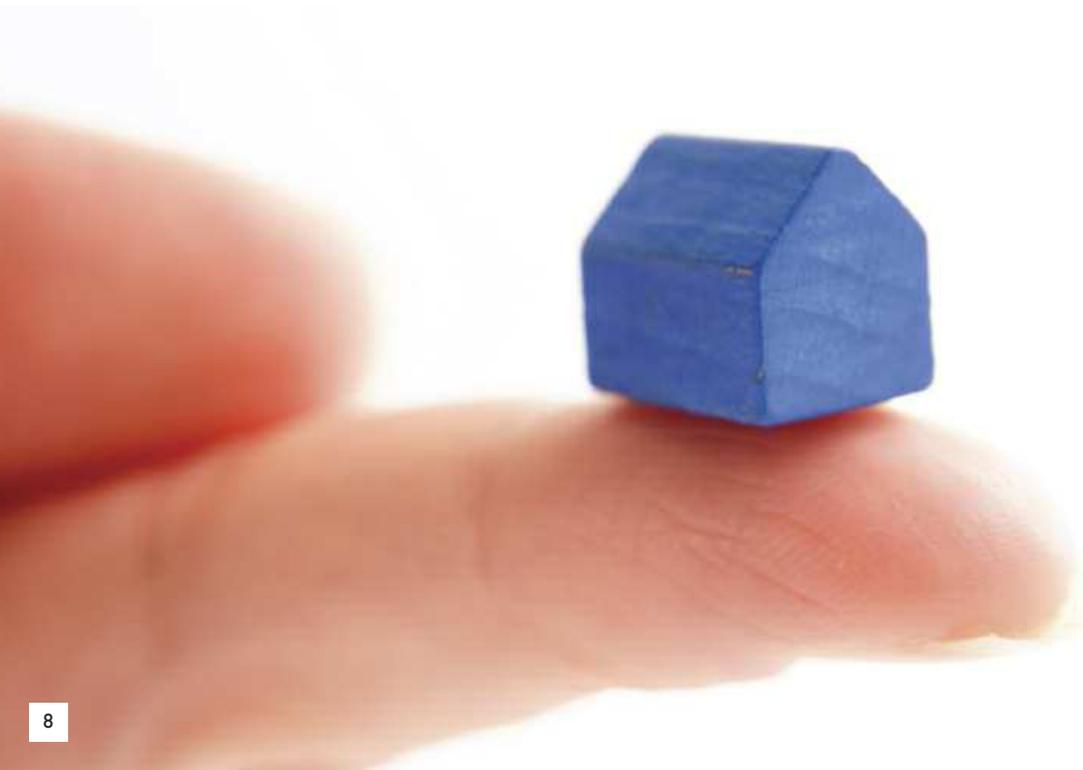


HABITAT for HUMANITY

Through the AHFA/Habitat for Humanity partnership, 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 nurture a relationship with the local lender and lay the groundwork for future financial aid. 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 allocated \$12 million toward this program, the first of its kind in the nation, purchasing 344 loans since 1992 and 26 loans in FY 2006 alone.



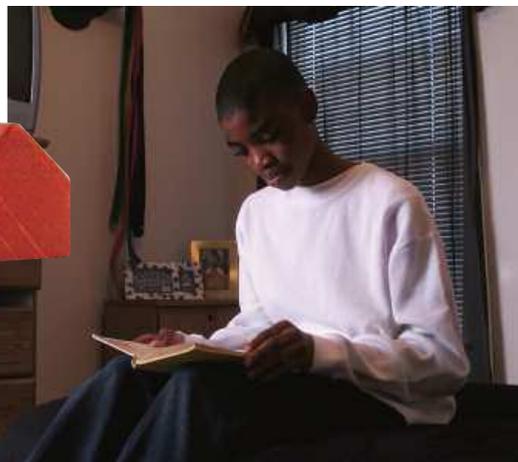


Darnella Parker wanted better for her three children—better schools and a safer, family-oriented neighborhood. “At that time, I was wanting my own place...a place to call my own,” she said. “Everything was driven by my kids.” A chance phone call to an old friend led Darnella to Greater Birmingham Habitat for Humanity. Though the post-application waiting was tedious, she found out that her family had been selected on the day following her 29th birthday.

Darnella rallied her friends and relatives to help her with the 300 “sweat equity” hours required by Habitat. “We knocked those hours out in seven weeks,” she said, noting that her crew did everything from labor on other Habitat homes to work in the affiliate’s outlet store. Eight months later, Darnella, a client services manager for MedAssist Inc., daughter Deontrenese, 11, and sons, Larry, 9, and Darnell, 5, were moving into their completed house in Birmingham’s Edgewater Oaks subdivision, a neighborhood that includes other Habitat families.

Today, Deontrenese, Larry and Darnell have adapted to their new schools and have made friends in their new surroundings—to the point that the Parker home has become the neighborhood hang-out.

“I had always prayed to God to have a house by the time I was 30, but He exceeded my expectations,” said Darnella. “I asked for a house, I didn’t ask for a brand new one. To actually experience this, to see what it takes to build a house, to see how much work goes into it...it’s so much more than just wood!”



AMERICAN DREAM

Downpayment Initiative

Through 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 out-of-pocket expenses.

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 home buyer 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, and the home's sales price must be less than \$200,160. They also learn the basic responsibilities of buying and maintaining a home through a homeownership education course.





After their son Gage arrived in 2005, Brannon and Cassy Horton were ready to put down permanent roots—preferably a brick house in a quiet neighborhood. The two-bedroom apartment in Decatur they had been renting was no longer ideal.

“We wanted a house that was ours,” said Cassy, a bank collections agent. “We wanted to spend our money on something that was ours, instead of renting.”

They found a three-bedroom, one-bath house in Danville that was perfect. “The other houses we looked at just didn’t have that ‘home’ feeling about them,” said Cassy.

Their real estate agent referred them to New South Federal Savings Bank, an AHFA participating lender, who steered them to ADDI’s \$10,000 principal reduction.

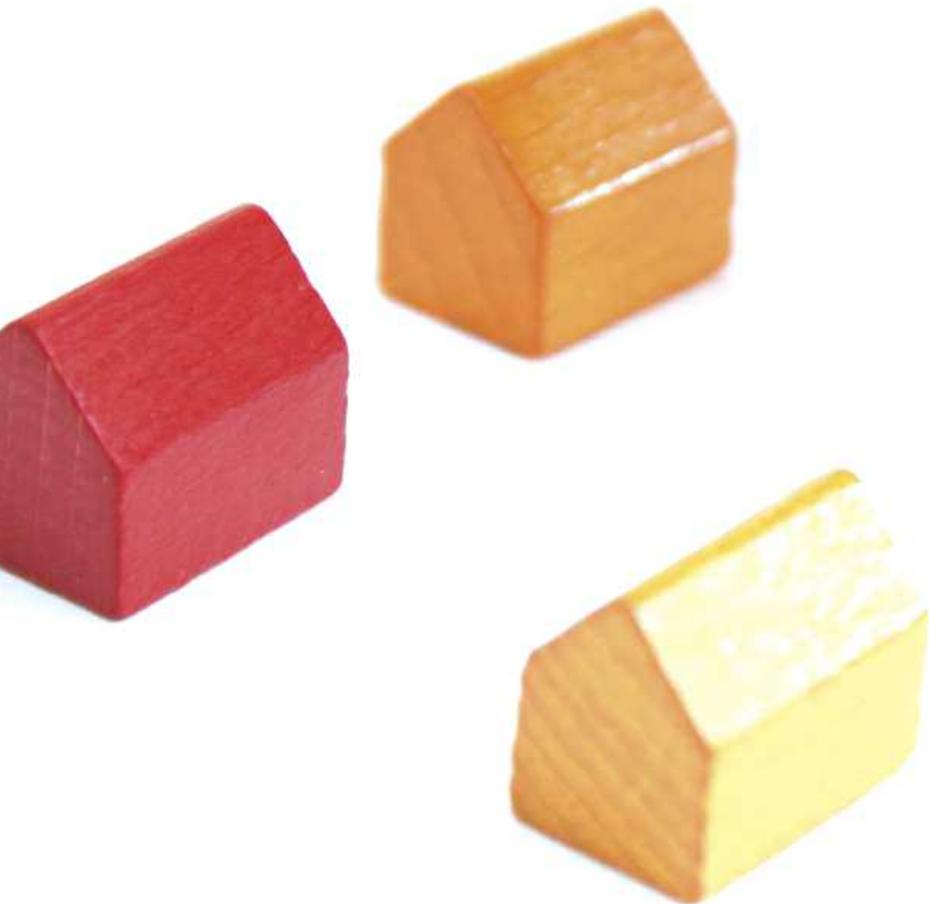
“Right off the bat, I knew we were in the right place,” Cassy said. “They never made me feel uncomfortable, even though there were a lot of things that I didn’t know and didn’t understand.” Loan Officer Teresa Page was able to secure them a last-minute ADDI reservation.

“If it hadn’t been for ADDI, we would not be in this house today,” said Cassy. “It was such a blessing. ADDI has made our house payment very comfortable.”

Cassy, Gage, and Brannon, a restaurant server, moved in five weeks before Christmas and were able to host for the first time a holiday gathering for their extended families. Cassy said, “We’ve enjoyed it every day since.”

HOME *Funds*

HOME Investment Partnership Program



HOME, a federally funded program, was created in 1990 as part of the Cranston- Gonzalez National Affordable Housing Act. It provides participating jurisdictions like Alabama with annual allocations which may be used by developers to buy, build or repair 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 and unbiased 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, the Housing Credit. 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 \$205 million to build 8,087 apartments for Alabamians in need. More than 484 families and elderly and handicapped citizens will benefit from \$14.9 million in 2006 HOME funds AHFA committed to build 12 new complexes.





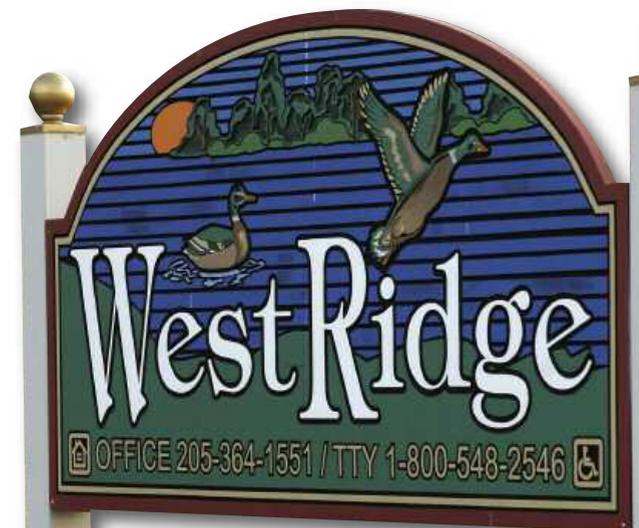
Throughout the summer and fall of 2004, construction continued on West Ridge Apartments, an AHFA-funded development in Gordo. Rita Billups was watching.

The Billups family, including husband Cornelius and their four children, were living in another apartment complex that wasn't suiting their needs. "It was time," said Rita. "I needed more space."

As soon as she was able, Rita started on the paperwork that would move them to West Ridge. "It was just dirt when we filled out our application," she said. "I was the second person to move in." The on-site manager was the first.

West Ridge's 26 units were financed in part by \$880,610 in AHFA-administered HOME Investment Partnerships Program funds. Each unit is equipped with washer/dryer connections and dishwashers. The complex also provides a clubhouse, a gazebo and playground for residents.

Rita feels comfortable enough to allow her children, ages 6 to 11, to enjoy the playground without worry. "I love it here," she said. "You don't have to worry about those things here. I definitely don't feel threatened."



Low-Income HOUSING TAX CREDITS



Through the Low-Income Housing Tax Credit program, AHFA helps developers and property owners 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.

The 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 \$134 million in Low-Income Housing Tax Credits to build or repair 648 apartment complexes housing more than 29,775 families. In FY 2006, AHFA used its \$24.6 million allocation to fund the construction or renovation of 38 developments comprising 2,360 apartments.





The Russel Erskine Building has been a fixture of downtown Huntsville since the early 1930s. Once a luxury hotel, the property was converted into apartments for the elderly in 1983 and, by 2004, was badly in need of renovation. The rehabilitation was financed in part by AHFA-administered Low-Income Housing Tax Credits. Gaybe Antonini remembers, as a child, dining there with her grandfather. Today, she calls it home.

"It's a wonderful place," the six-year resident said. "We all took into consideration that it had to get worse before it got better. But, they did an excellent job. It gives everybody in here a new sense of self. We have newer than we had...cleaner than we had...better than we had." In addition to a dramatic facelift, the residents of The Apartments at Russel Erskine's 69 units enjoy new paint, flooring, cabinets, appliances, plumbing and electrical fixtures, and heating and cooling controls. Through it all, they have banded together to form an extended family. "It's like a family...a community in a building," said Gaybe. "It's like living in a dormitory. If I want privacy, I can have that. If I get lonely, I can go outside and find someone to visit with."



Knowing many others would echo the same sentiment, Gaybe said, "At my age and at my life right now, this is the perfect place. I would suggest it for anyone."

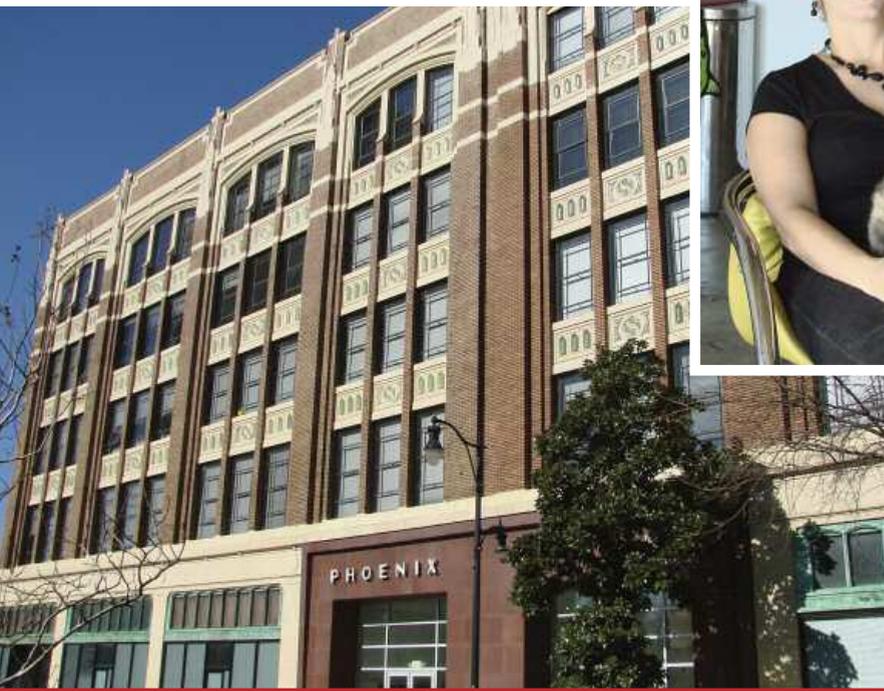
Multifamily BONDS

AHFA provides financing for multifamily housing through Multifamily Housing Revenue 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 more than \$837 million in multifamily bonds to purchase, repair or build 109 apartment complexes with more than 17,000 units throughout the state.





Though it started life in 1926 as a warehouse and served for nearly 40 years as the home of Southern Bell Company, The Phoenix Building in downtown Birmingham has most recently been reincarnated as affordable loft apartments.

Financed in part by more than \$5 million in AHFA-administered Multifamily Bonds and Housing Credits, the revitalization of The Phoenix was completed in 2005 to much fanfare.

Resident Kristine Chatam Hellmers, an independent business owner and self-described 'starving artist,' had seen the advertisements, but continued to believe the idea of the working artist in a loft apartment was television fiction.

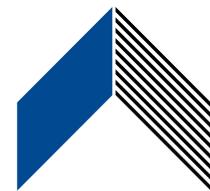
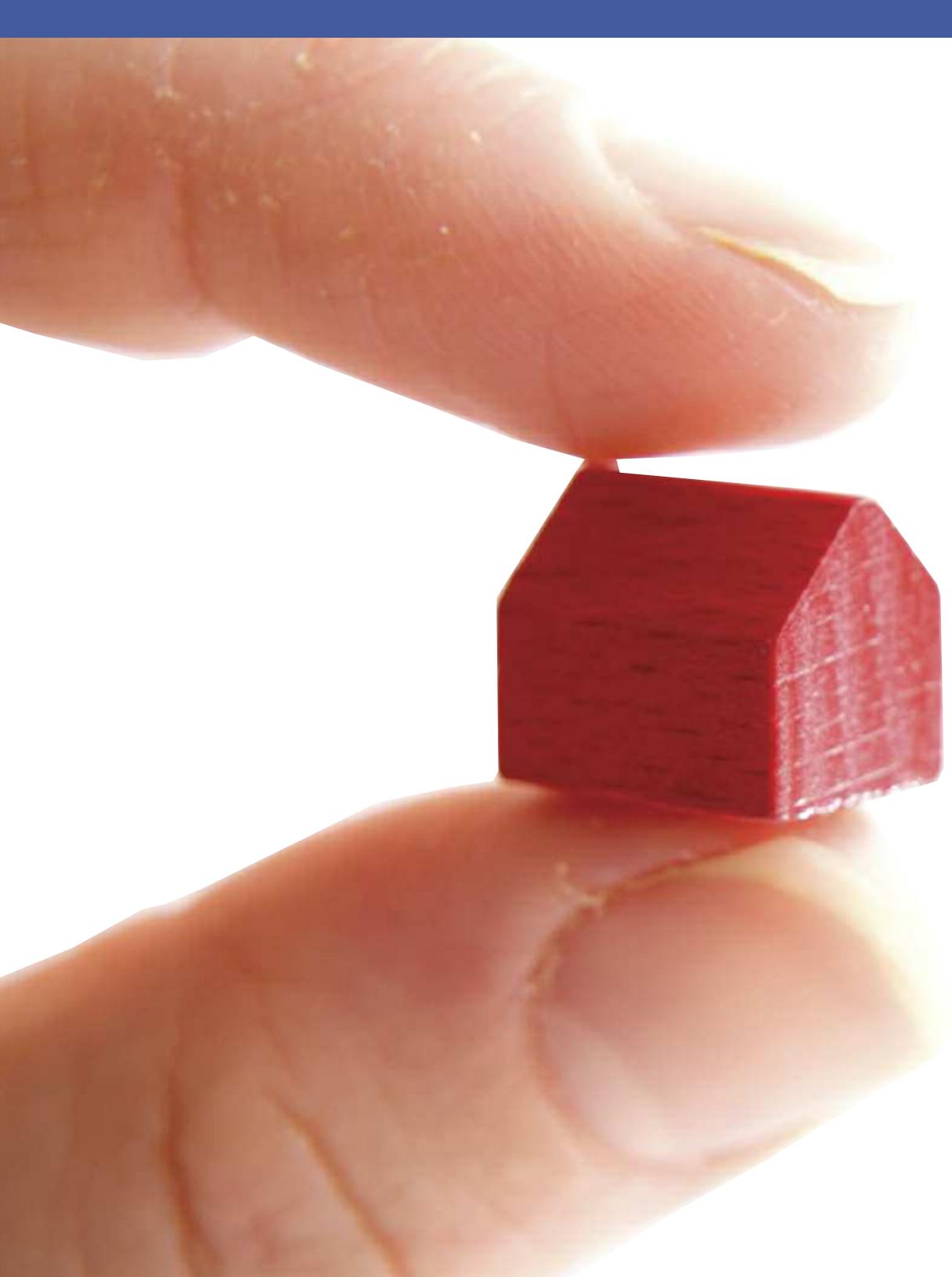
"I had seen posters for it," she said. "But, I didn't put a lot of stock in it. I was kind of skeptical about the whole thing. Most lofts are prohibitively expensive."

Then one weekend, she went to an art show in one of the units and mistook it for a gallery. "Suddenly, I hated where I lived," she said. First thing Monday she was on the phone to the leasing office.

"I even paid dual rent for a while so I could get in," said Kristine.

The development's 74 units—including 14 market-rate apartments—average more than 1,400 square feet with ceilings of 13 to 20 feet, concrete floors and exposed ceilings and authentic ornamental windows.

"It's such a cool space—light and airy. It's perfect for me," said Kristine. "You really can be a broke artist and live in a loft!"



COME
ON
HOME,
ALABAMA.