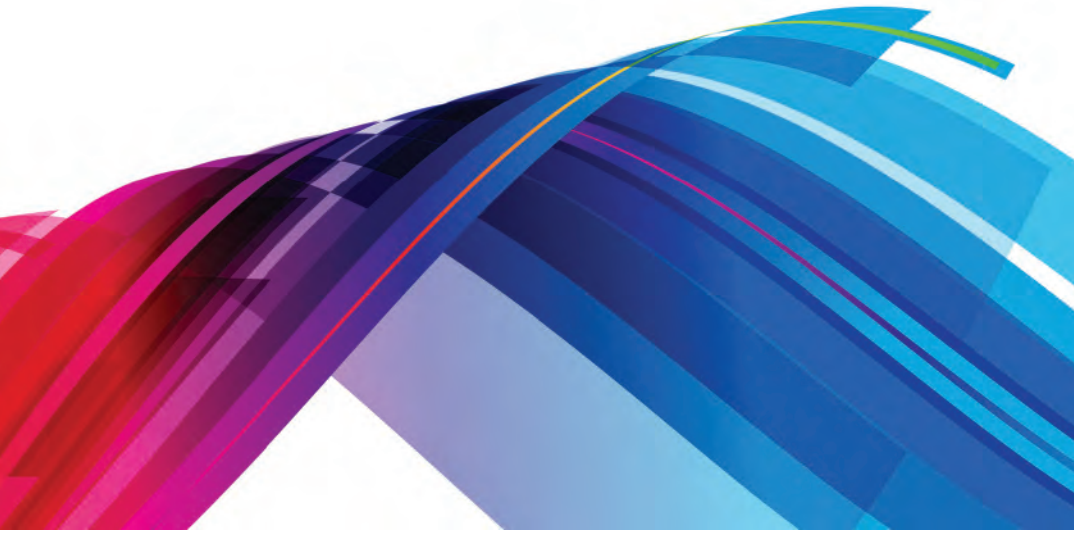




**ALABAMA HOUSING
FINANCE AUTHORITY**

Come on home, Alabama.



ANNUAL REPORT 2012

growing. together.





2012

This has been a momentous year for the Alabama Housing Finance Authority. With our uncompromising focus, programs were executed well and new endeavors helped make strong investments for the future.

Although real estate sales figures are offering a glimmer of hope in our state, turmoil still exists in the housing market overall. Most housing finance agencies (HFAs) have felt the impact of the stalled bond market.

Fortunately, AHFA's Step Up program celebrated \$1 billion in total mortgage loans this past May and has helped approximately 9,000 homebuyers across our state since it was introduced in 2000.

In spite of this success, we continued to focus on a growth strategy that would enable AHFA to effectively meet our core mission for years to come. AHFA's staff devised an innovative approach to make this possible.

In 2012, we rebranded our servicing department as ServiSolutions® and expanded to not only service the loans originated by AHFA and community banks in Alabama, but loans in other states as well, including those of the Washington State Housing Finance Commission.

We thank all of those who help make our success possible each year and look forward to what the future holds.


Dr. Shelton E. Allred, *Chairman*

Robert Strickland, *Executive Director*

step. up.



In 2012, the Step Up program celebrated \$1 billion in total mortgage loans. "We couldn't have reached this milestone without the efforts of our dedicated network of participating lenders," said Robert Strickland. "They are the front line of contact with the borrowers and do a tremendous job promoting all of our financing options, particularly Step Up."



Step Up, a homeownership financing option offered by AHFA, has financed approximately 9,000 homes across our state with more than \$1 billion in total mortgage loans and is still going strong.

Introduced in 2000, Step Up helps those who can afford a market-rate mortgage, but whose savings fall short of the amount needed for entry costs like a down payment, closing costs and prepaid items.

Through this program, AHFA is able to offer down payment assistance with generous income limits. The down payment funds are secured by a 10-year second mortgage and are combined with a 30-year, fixed-rate first mortgage. Program participants may earn up to \$97,300 in total family income and remain eligible for the Step Up program, regardless of household size or location. In addition, program participants must complete a home buyer education course to qualify.

While it's true that a little rain must fall in every life, Tenisha Slack thinks that she's had more than her fair share lately. A native of New Orleans, Tenisha and her family were evacuating as 2005's Hurricane Katrina was bearing down on the Big Easy. "We left the day before Katrina hit," she said.

Five years later, she decided to relocate to Birmingham, Alabama—an area less susceptible to such severe weather—to be closer to relatives. She settled into her new hometown, finding a job at a clothing store and an apartment at Timber Ridge in Birmingham's Pratt City area. Then came nature's fury once more. Pratt City was one of the area's hit hardest by the April 2011 tornadoes that left a trail of damage across Alabama. Timber Ridge was destroyed. Tenisha lost everything.

"It was rough. We had gotten off work early because the tornadoes had hit Tuscaloosa," she said. "I went home. It started getting darker and darker. When the power went out, we (Tenisha and two cousins) moved into the hallway. And, that's where we were when the storm hit. We were in a second floor unit. We lost the roof and the windows out of our apartment."

When Tenisha decided it was time to buy a home of her own, Home Mortgage of America, Inc., referred her to AHFA's Step Up program, which combines affordable financing with down payment assistance. "It helped a lot," said Tenisha.

Six months after the tornadoes, she moved into her new home in Center Point. When severe storms were predicted for her area in January, she spent the night in the basement. She emerged the next morning to learn that tornadoes had passed within four blocks of her house.

These days, Tenisha may get anxious when the weather gets bad, but she feels safe and secure in her AHFA-financed home. "It's a blessing," she said. "It's much more work than living in an apartment, but it's worth it."



mortgage. servicing.

In late 2004, consolidations in the banking industry threatened to move the servicing of AHFA loans to offices outside of the state. AHFA's Board of Directors saw an opportunity to expand the organization's focus beyond long-term mortgage solutions to servicing mortgages and created AHFA's servicing department—now known as ServiSolutions®—thereby preserving jobs for Alabama citizens and creating a new avenue with which to serve our state's homebuyers.

Within weeks 15 employees had been hired, additional office space obtained, and computer and office equipment and supplies had been purchased. Within 75 days, AHFA had received the necessary approvals from Fannie Mae, Ginnie Mae, USDA Rural Development, VA & HUD. On March 1, 2005, AHFA's servicing department opened with 12,000 loans worth \$750 million.

In early 2010, the state's banking industry notified AHFA about legislation that would require banks to escrow for taxes and insurance on many of the mortgage loans they service. As part of the Home Ownership Equity Protection Act, new rules were released amending Regulation Z (the Truth in Lending Act).

The amendments to the regulations were intended to enable borrowers to make better purchasing decisions and prevent foreclosures. However, the new reporting requirements created significant extra work for banks servicing mortgage loans—particularly small and/or community banks who had historically serviced the mortgage loans that they originated.

In response, AHFA created its BankServe product, through which AHFA performs those servicing functions on behalf of participating banks. To do so required a change of AHFA's enabling legislation to allow AHFA to service loans for borrowers with incomes other than low to moderate and to allow AHFA to service loans in states other than Alabama. The bill to make these changes was unanimously approved in the state legislature and was signed into law on March 12, 2010. Approval by AHFA's Board of Directors quickly followed and AHFA was ready to accept mortgages from banks by April 1, 2010.

The new bill allowing AHFA to service bank loans provided the opportunity for even greater expansion. In the fall of 2011, AHFA responded to a Request for Proposals for master servicer of the Washington State Housing Finance Commission. In November, AHFA's Board of Directors approved a resolution allowing ServiSolutions® to act as servicer for new loans generated through the Commission.

It was during this process that AHFA decided to re-brand its servicing department as "ServiSolutions®"—distinguishing it as a department of AHFA that provides services not only to the residents of Alabama but of other states as well.

ServiSolutions® services all types of mortgages including FHA, VA, Rural Development, conventional uninsured and conventional insured loans. In addition, ServiSolutions® is an approved seller/servicer for Ginnie Mae and Fannie Mae. Currently, ServiSolutions® services mortgage loans in Alabama, Florida, Georgia, Tennessee, and Washington.



habitat. for. humanity.

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

Abiding by AHFA's enabling legislation, 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 to the local bank, which then sells the loan to AHFA. This productive cycle unites the local Habitat affiliates, the lending community and AHFA to give Alabama's less fortunate families a chance at homeownership.



To aid families across the state impacted by the April 2011 tornadoes, AHFA allocated \$3 million in additional funds to the Habitat for Humanity Loan Purchase Program.

Located in one of the state's hardest hit areas, Habitat for Humanity of Greater Birmingham was the recipient of \$800,000 through this initiative.

"Immersed in disaster recovery in the region immediately following the tornadoes and committed to assisting with long-term recovery for the region in collaboration with numerous agencies, Habitat Birmingham was readily able to benefit from this capacity building opportunity," said Charles Moore, president and CEO of Habitat Birmingham. "Habitat Birmingham truly appreciates the long-standing support of the Alabama Housing Finance Authority, which allows us to expand our capacity to help families in need of affordable housing solutions."

Funds from the initiative were used to support the affiliate's participation in Habitat's annual Home Builders Blitz. Each year, Habitat affiliates partner with local professional homebuilders and construction firms to complete a number of quality, affordable homes simultaneously in a single week.

"The Greater Birmingham Association of Home Builders' partnership with Habitat for Humanity gives our builders the opportunity to shine", said Brooks Harris, 2012 Greater Birmingham Association of Home Builders president, "and we are proud to work with such a worthy organization."

During the 2012 event in May, nine partner families in the Clay-Chalkville area became homeowners thanks to the support of local builders, sponsors and volunteers.

Homeowner Quesha Degraffenried said, "Becoming a homeowner will completely change our lives. I'll be able to plant flowers, hang pictures, and even paint the walls if I want to. Having the freedom and security of a home will be wonderful, and I'm so thankful for this opportunity."

multifamily.

Sitting in the direct path of the tornado's fury on April 27, 2011, was the newly built Chastain Manor in Tuscaloosa, a 56-unit affordable senior development that was only 40 percent leased at the time of the storm. Within minutes, the community was destroyed and two residents had sadly lost their lives.

Resident Sarah Jenkins, who had moved in only weeks prior, was in her apartment resting and watching weather updates on television when she noticed an eerie quiet. She ran to take shelter in the bathtub. "The entire apartment was shaking and I heard glass breaking. It was indescribable," said Jenkins. "When it had passed, I opened the door and saw vinyl siding laying across my bed. I looked down the hall, and all I saw was sky."

Neighbor helped neighbor escape from under debris, from damaged buildings, with ladders and through broken windows. Because Chastain Manor sits at the end of a cul-de-sac and the surrounding neighborhood was also devastated, the residents had to walk nearly a mile through dirt, debris and water.

"Not one square inch of the property was untouched," said Lane Company Regional Vice President, Ashley Monroe, who traveled from her home in Atlanta the day after the storm to assess the damage to the community and render assistance where she could.

Mary Meadows rode out the storm at the furniture store where she works and had to wait two days before she could view the damage. "When approaching my unit, the first thing I saw was my new red drapes hanging on the outside of my building. It just wasn't comprehensible—everything was wet and covered with dirt and insulation," she said.

"It was important for us to make sure we got housing back on the ground as quickly as we could.," said developer Kevin Buckner, president of Atlanta-based TBG Residential. "We felt a huge commitment to get the units back up. There's such a huge need for housing in that area."

The community didn't remain a pile of rubble for long. Clean-up and reconstruction began immediately after the storm, without waiting for insurance money. Rebuilding took about six months, which is unusually fast.

Because the buildings were only a few months old, Buckner says it was easier to rebuild Chastain Manor to its original specifications, with minor adjustments to meet new codes. One major addition is a storm shelter costing about \$80,000, adjacent to the property's center. The two F5-rated doors alone cost \$13,000. The shelter features 8-inch-thick concrete-reinforced walls and ceiling.

Both Jenkins and Meadows moved back as soon as the reconstruction was complete. "Having the storm shelter is comforting," said Jenkins. "But, I hope to never need to use it."

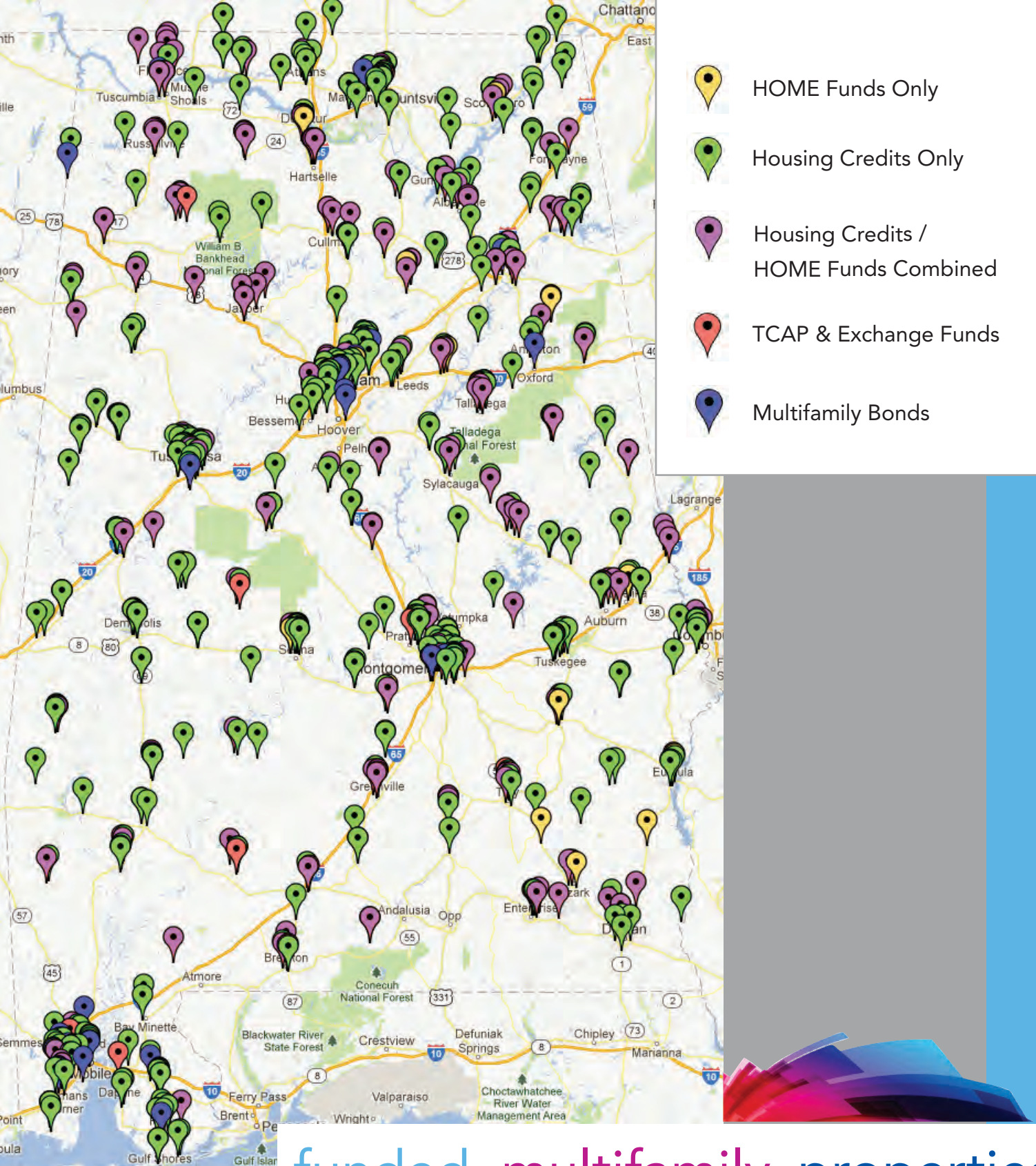


housing credits & HOME program

Serving as Alabama's administrator of the Housing Credit program, AHFA helps developers build or repair housing to be rented to low-income families at affordable rates. This financial incentive encourages developers to increase the supply of rental housing for economically disadvantaged families. Housing credits provide a dollar-for-dollar reduction to a developer's federal tax liability. In turn, the developer must reserve a percentage of the units for the area's lower-income residents, based upon the area's median income. The credits are awarded annually through a competitive application process to ensure the credits are distributed throughout the state to areas with the greatest needs.

HOME, a federally funded program, provides annual allocations that may be used by developers to buy land and build affordable housing. As Alabama's HOME program administrator, AHFA directs an application cycle on a competitive basis. In addition, AHFA's compliance staff is responsible for monitoring HOME-assisted developments and conducting on-site visits. They check rental property annually for compliance with HUD tenant incomes, rent levels and Housing Quality Standards.

Housing Credits and HOME, as primary AHFA funding sources, are often utilized with other supplemental housing resources administered by AHFA, from time to time, such as Tax Credit Assistance Program (TCAP), Exchange Program, Multifamily Bonds and Go Zone Credits. This method, which encourages leveraging of additional loan, grant and philanthropic sources, is an example of the measures AHFA takes to ensure its programs benefit the greatest number of Alabamians as possible.



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IN MEMORY OF GORDON HENDERSON

In September, the Alabama Housing Finance Authority (AHFA) staff and Board mourned the death of long-time Board member Gordon Henderson of Albertville.



Henderson was an original member of the Board of Directors and had served continuously for the last 32 years. A real estate developer and former mayor of Albertville, Henderson was a passionate supporter of efforts to provide affordable housing for the citizens of Alabama.

He was a treasured member of the AHFA family and will be greatly missed.

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TO VIEW AHFA'S FISCAL YEAR
2012 COMPLETE FINANCIAL
STATEMENTS, PLEASE VISIT

www.ahfa.com/financials.



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 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 ahfa.com or Post Office Box 242967, Montgomery, Alabama 36124-2967, or call 334.244.9200 in Montgomery or 1.800.325.2432.

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P.O. Box 242967
Montgomery, AL 36124-2967

www.AHFA.com

334.244.9200 phone
800.325.2432 toll-free
334.244.9214 fax