



First Step

MORTGAGE REVENUE BONDS



**ALABAMA HOUSING
FINANCE AUTHORITY**

Come on home, Alabama.



On Today's Agenda

Our Discussion Points

- First Step Program Overview
- How the First Step program works
- First Step Origination Process
- What is Recapture
- First Step Reservation Process
- First Step Forms
- Open Discussion

Working with Us

First Step Program

How the program works



First Step Program

Mortgage Revenue Bond Program

Nearly 50,000 Alabama households have benefitted from AHFA's First Step Program, which offers below market, 30-year fixed mortgage interest rates to first-time or repeat homebuyers.





Loan Types/Term /Rate

Loan Type

FHA Loans - 203B & 234C

VA Loans – Guaranteed Loan Program

Freddie Mac – HFA Advantage

USDA - Guaranteed Loan Program

Loan Terms-

1st mortgage = 30-year term

2nd mortgage = 10-year term (DPA)

The interest rate will be set by AHFA.

Both the 1st and the 2nd mortgages are at the same rate.

Eligible Loan Areas

The entire state of Alabama is designated as an eligible loan area. Federal law requires that 20% of the funds be allocated for **targeted areas** of the state.

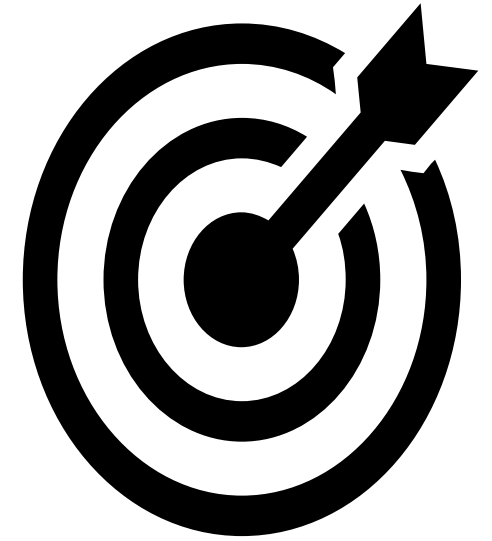
AHFA will monitor the use of targeted funds reservation.



Additional Income		
Details	Month	Amount
Mid Year Bonus	June	2,000
Year End Bonus	December	3,000
	January	5,000
Total Additional Income		

Planned Expenses		
Expenditure	Month	Amount
November vacation	November	450
Home for the holidays	December	800
Gifts for family	December	880
	July	
Family vacation	January	
	January	

What are Targeted Areas



A targeted area is a qualified census tract, or an area identified previously as economically distressed. A targeted area may be an entire county or may be a particular census tract or other designated specific area within that county. Other counties may be all non-targeted.

Some targeted area determinations can be validated via the following website – [PolicyMap](#)

Targeted vs. Non-Targeted Areas

Targeted Area

Higher income limits

Higher sales Price/Acquisition limits

No First-Time homebuyer restriction

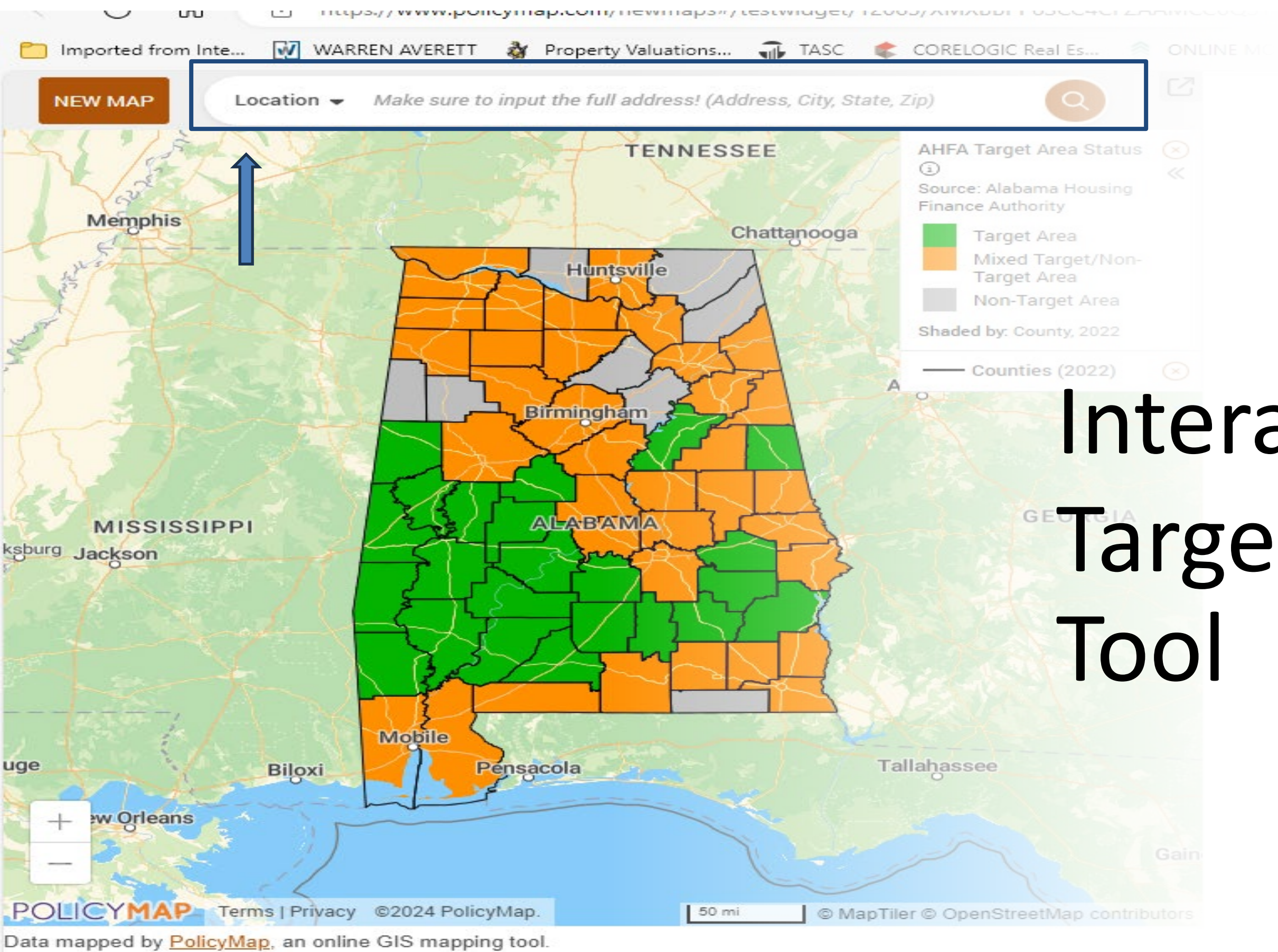
Non-Targeted Area

Lower income limits

Lower sales Price/Acquisition limits

Borrower must be a first-time homebuyer





Interactive Target Map ID Tool



TARGET AREA ID STATUS REQUEST FORM

Please email the form to compliance@ahfa.com

Date: _____

Remit To: _____

Commitment #: _____

County: _____

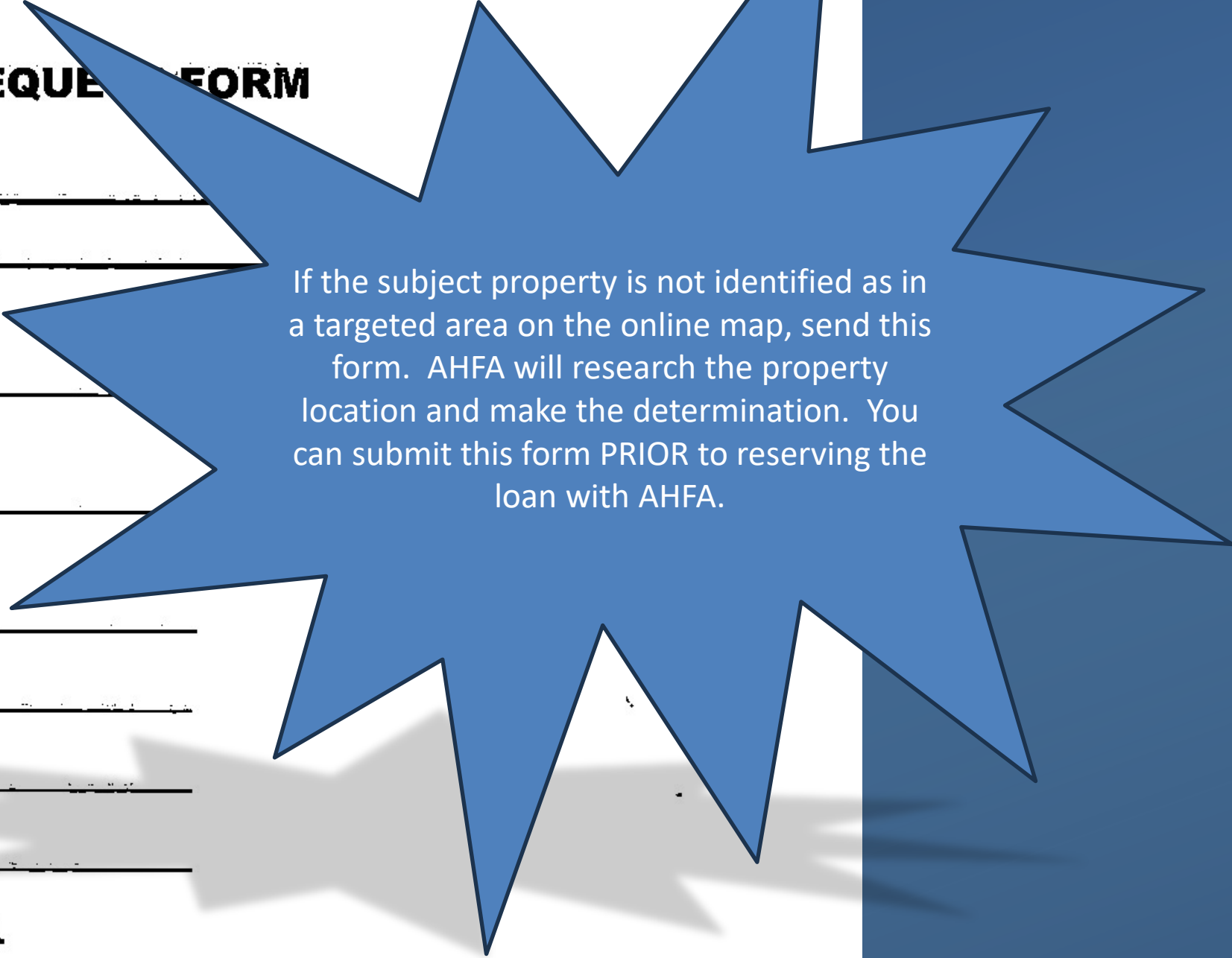
Address: _____

Please include Location Map* with property specifically marked.

** New construction properties may require an appraisal map or plat map.*

Contact Person: _____

Telephone #: _____ Fax #: _____

A large, multi-pointed blue starburst graphic with a black outline, casting a soft shadow to its left. It contains white text.

If the subject property is not identified as in a targeted area on the online map, send this form. AHFA will research the property location and make the determination. You can submit this form PRIOR to reserving the loan with AHFA.

Property Eligibility



Prohibited Property Uses

Eligible Property uses

Property Improvements

Excess Land Usage

Title Restrictions

Prohibited Property Uses

The property cannot be
rented, leased, quit
claimed, assigned or
interest transferred

The property cannot be used as
place of business/trade. The
mortgagor cannot deduct any
portion of the residence as home
business

The property cannot be
used as investment
property

The property cannot be
used as recreational,
seasonal, vacation or as a
second home.

Qualified Residences and Property Requirements

No leasehold properties

One-unit SF detached home

Manufactured home classified as real property. **Government loans ONLY**

One-unit row-house or townhouse

Approved FHA, VA or Freddie Mac condo project



Property Improvements



During the first year of ownership, the mortgagor cannot make improvements or have services performed that would cause the acquisition cost to exceed the maximum sales price limit.

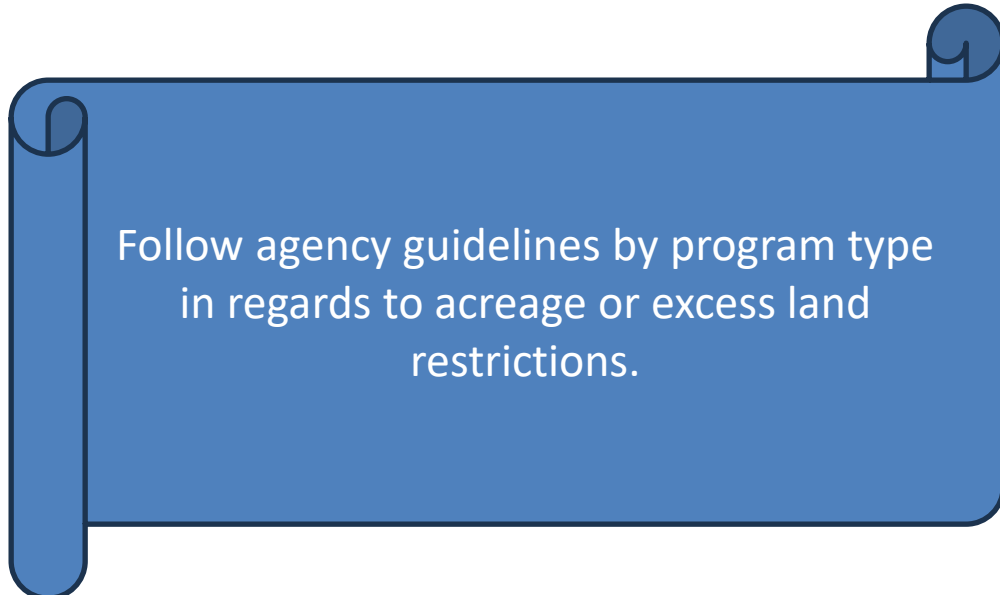
Ineligible Improvements:

- ☐ Addition of fixtures
- ☐ Completion of livable basement or attic space
- ☐ Addition of rooms or outbuildings

Excess Land and Land Usage

Land being purchased with the Residence should maintain the basic livability of the Residence and cannot provide a source of income to the Eligible Mortgagor. If the land is capable of being subdivided or used in agricultural business, the borrower(s) must certify that they will not:

1. Subdivide or otherwise sell any of the real property on which the Residence is or is to be located, except in conjunction with a future sale of the residence.
2. Seek any variance from applicable zoning, minimum lot size or set-back requirements.
3. Start a homestead business on their property.



Follow agency guidelines by program type
in regards to acreage or excess land
restrictions.



Title Restrictions

- ☐ Title may be held only in the names of those persons who sign BOTH the Mortgage Note AND the Security Instrument. The Warranty Deed must be prepared correctly to insure it adheres to these program requirements.
- ☐ Properties still within a remaining redemption period from foreclosure may not have a title exception for the redemption period.

See the Loan Delivery Guide for more information and details as to title restrictions.

Borrower Eligibility



First -time Homebuyer
Requirement

Household Size

Income Limits

Income Documentation

Sales Price Limits

Acquisition Cost

Credit Overlays

Must be a first-time
homebuyer if property is
located in a non-targeted area!

First-Time Homebuyers

First-Time homebuyer requirement

No homeownership interest in a principal residence in the three years prior to execution of the initial loan application.

First-time homebuyer Veterans Exemption

Veterans & their spouses are exempt from the three-year ownership rule as long as the veteran has not financed a home using MRB or he/she was not dishonorably discharged.

Ownership Interest Includes

Fee Simple
Joint tenancy
Interest of a tenant shareholder in a
Cooperative

Ownership Interest Includes

Life Estate
Ownership of a manufactured home
on owned land or land leased for 3+
years



First-time Homebuyers Documentation

- ☐ Signed Eligible Borrowers Affidavit
- ☐ Completed URLA 1003
- ☐ Tri-Merge Credit Report
- ☐ Copy of Drive Report, Fraud Guard Report or MERS Report

- ☐ Documentation is only required if borrower is purchasing in a non-targeted area
- ☐ *Additional documentation may be required*

Household Size

- ❑ Income and sales price limits are based on household size
- ❑ Any changes to the total household could affect the borrower's eligibility and may require additional documentation
- ❑ Non-Occupant co-borrowers or co-signers are not allowed
- ❑ Unborn children are excluded from household size totals



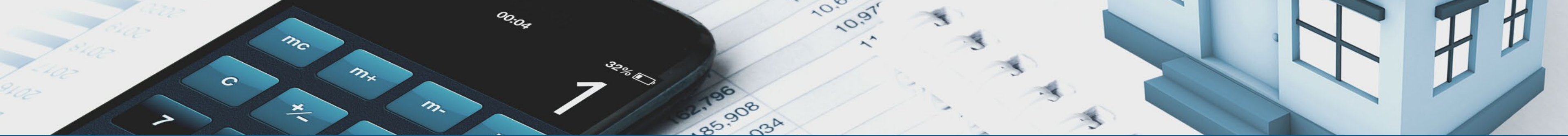
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	July	
Family vacation	January	
	January	



Credit Overlays

- ☐ Minimum credit score of 640
- ☐ Maximum DTI 45%
- ☐ No manually underwritten loans
- ☐ Automated Underwriting Findings Required
 - ☐ FHA/VA Loans - LPA or DU Approved/Eligible
 - ☐ Freddie Mac HFA Advantage – LPA Accept/Accept
 - ☐ USDA GUS Accept



Income Limits & Income Documentation



		TARGET AREAS	NON -TARGETED
Family Size		3+ 1-2	3+ 1-2
STATEWIDE (except counties specified below)	<div>Published to ahfa.com website under First Step Program page. These amounts will change from time to time. Please see website for most current limits!</div>	\$111,440 \$95,520	\$91,540 \$79,600
BALDWIN COUNTY		\$119,400 \$111,600	\$106,950 \$93,000
BIRMINGHAM AREA (Bibb, Blount, St. Clair, Shelby & Jefferson Counties)		\$119,400 \$108,480	\$103,960 \$90,400
DECATUR AREA (Lawrence & Morgan Counties)		\$119,400 \$103,560	\$99,245 \$86,300
HUNTSVILLE AREA (Limestone & Madison Counties)		\$119,400 \$119,400	\$119,400 \$108,200
LEE COUNTY		\$117,460 \$100,680	\$96,485 \$83,900
TUSCALOOSA AREA (Greene, Hale, Pickens & Tuscaloosa Counties)		\$116,060 \$99,480	\$95,335 \$82,900



First Step Income Eligibility vs. Qualifying Income

- The lender will complete the initial First Step income eligibility and credit qualifying income calculations.
- Prior to closing, AHFA will review and approve the borrowers First Step income eligibility and issue the Conditional Commitment
- The First Step income eligibility calculation will use all sources of income for the borrower(s)
- If a borrower is not working and does not plan to seek employment w/in the next 12 months an Employment Statement is required.
- Income of household members not on the loan is NOT included on the First Step Program income eligibility calculation.



What's included the First Step Income Eligibility Calculation

W-2 & 1099 income

Overtime, bonuses, fees, tips

Second Jobs

Dividends interest income

Alimony & child support

VA benefits, disability income, unemployment benefits, and Social Security income

Net rental income

Self-employed income from the Schedule C, E & F form 1040, Partnership Income, etc.

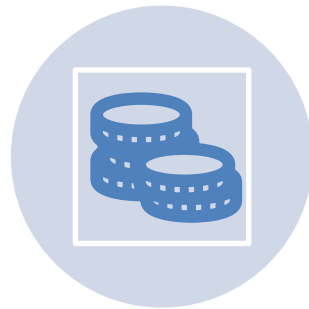
What's NOT included in the Compliance Income Calculation



FOOD STAMPS



FOSTER CARE INCOME/ADOPTION
ASSISTANCE PAYMENT



EARNED INCOME TAX CREDIT



INCOME FROM LIVE-IN AIDE



STUDENT FINANCIAL ASSISTANCE
PAID TO THE SCHOOL



ONE-TIME WITHDRAWAL FROM
RETIREMENT/INVESTMENT ACCOUNT
WITHIN THE 12-MONTH PERIOD



MEDICAL REIMBURSEMENTS



MILITARY HAZARD DUTY PAY

Other sources of income may be excluded



Required Income Documentation

The lender's underwriter must complete the First Step Income Eligibility Worksheet to document the income they used to determine program income eligibility.



Most recent 30-day consecutive paystubs from the date of initial application. The paystubs must include YTD earnings.



W-2's for the most recent year and most recent years tax transcript (Feb. 15th is the cutoff date for most recent years tax transcript). 1099's.



Current awards letter for applicable "other" income sources. Divorce decree, separation agreement or other verification of child support or alimony payments received.



Self-Employed Borrowers - Most recent years federal tax transcript and a signed and dated YTD P&L.



Rental Income, if applicable, documented with lease agreement or third-party verification of market rent. 75% of market rent will be added to annual income. For any retained property, rental income will be estimated UNLESS the borrower provides written statement that they have no intention to rent property for the next 12 months.

First Step Income Eligibility Calculation



Gross income is calculated by projecting gross income forward for the 12-month period beginning on the date of the loan application. *Year-to-date earnings reported on the paystub should be reviewed by the lender to determine if more income has been earned than base earnings. Any non-reoccurring income should be verified with the employer before deducting from eligibility income.

Typically, income from overtime, bonuses and commissions will be averaged for prior year and year to date or current year only if it is newly received.

Any income used for credit qualification will be included in eligibility income calculation.

FIRST STEP INCOME ELIGIBILITY WORKSHEET

Borrower Name
Employer

Loan Number
Date

Thursday, March 14, 2024

PAY TYPE	
----------	--

Hourly		Per Hour		# of hours	X52/12	\$ -	Income
		YTD Earnings		# months			Income
		W2 for Tax Year		# months			Income
<input type="checkbox"/>	\$ -	Per Hour					
<input type="checkbox"/>		YTD Avg					
<input type="checkbox"/>		YTD + 1 W2 Avg					
	\$ -	Total Hourly Income					

Salary		Type of Salary				
<input type="checkbox"/>		Monthly	X1	=	\$ -	Income
<input type="checkbox"/>		Bi Weekly	X26/12	=	\$ -	Income
<input type="checkbox"/>		Semi Monthly	X24/12	=	\$ -	Income
<input type="checkbox"/>		Weekly	X52/12	=	\$ -	Income
<input type="checkbox"/>		YTD Salary (paystub)		# months		Monthly Avg
<input type="checkbox"/>		W2 Income		# months		Income
<input type="checkbox"/>	\$ -	YTD + 1yr Avg		# months		Income
	\$ -	Base Income				

Overtime		Break out OT/Bonus from base salary			
		YTD Overtime		# months	
		Past Year OT Breakout		# months	
<input type="checkbox"/>		YTD Avg			
<input type="checkbox"/>		YTD + 1 Year Avg			
	\$ -	Overtime Income			

Bonus			
		YTD Bonus	# months
		Past Year Bonus Breakout	# months
<input type="checkbox"/>		YTD Avg	
<input type="checkbox"/>		YTD + 1 Year Avg	
	\$ -	Bonus Income	

Other Income		Type of Income	Click for a list
		YTD Income	
		W2 for year	
<input type="checkbox"/>		YTD Income	
<input type="checkbox"/>		YTD + 1 Year	
	\$ -	Other Income	

SS, Retirement, Child Sup, etc.

	Click for a list	\$ -	Income
	Click for a list	\$ -	Income
	Click for a list	\$ -	Income

Self-Employed Income

YTD Income

Income from Tax Yr

months

income

months

income

☐

YTD Income

☐

YTD + 1 Year

\$ -

Self-Employed Income

Rental Income

Rental Income

\$ -

Income

\$ -

Monthly Rental Income

TOTAL MONTHLY INCOME \$ -

TOTAL ANNUAL INCOME \$ -

TOTAL ACQUISITION COST

A. All amounts paid, in cash or in kind, by the Borrower (or a related party or for the benefit of the Borrower) to the seller (or a related party or for the benefit of the seller) as consideration for the Residence.

B. The price or total cost to construct a home on land owned by the Borrower.

C. The amount paid by the Borrower for the inimproved lot/land if owned less than two years before the date of the initial loan application date.

D. The borrower-paid cost of necessary repairs to the residence that are not included in the purchase contract.

E. Amount paid, in cash or in kind, by any person to or for the benefit of the seller (or related party) on behalf of the Borrower, in connection with the property.

F. The cost for fixtures that are not included in the sales contract.

Total Cost:

\$ -

Sales Price:

Total Acquisition Cost:

\$ -

Underwriter Comments

Sales Price/ Acquisition Limits



Sales Price/Acquisition
Limits

Acquisition Inclusion

Acquisition Exclusions



Sales Price/Acquisition Limits



Targeted Area:
\$ 5 8 8 , 1 0 4

Non-Targeted Area:
\$ 4 8 1 , 1 7 6

Acquisition Cost Inclusions:

- ✓ The price indicated in the executed purchase contract for a proposed, new, or existing house and lot/land that will be conveyed to the Borrower when the loan is closed.
- ✓ The price or total cost to construct a home on land owned by the Borrower.
- ✓ The amount paid by the borrower for the unimproved lot/land if owned less than two years before the date of the initial loan application date.
- ✓ The borrower paid cost of necessary repairs to the residence that are not included in the purchase contract.
- ✓ Amount paid in cash or in kind, by any other person to or for the benefit of the seller (or related party) on behalf of the borrower, in connection with the property.
- ✓ The cost for fixtures that are not included in the sales contract.



Acquisition Cost Exclusions:

- ✓ The amount paid by the Borrower for an unimproved lot more than two years before the date of the application, on which the subject residence will be or has recently been built.
- ✓ The cost for personal property that is not included in the contract for sale.
- ✓ The sweat equity of borrower or borrower's immediate family's labor.
- ✓ Loan Points paid by the seller.
- ✓ Usual and reasonable settlement and financing costs.



RECAPTURE TAX



RECAPTURE TAX

3

- Three TRIGGERS to Recapture
 - Sales within the first nine years of ownership
 - Gain on the sale of the property
 - Income increase (over the eligibility limit in place at the time of the sale)

All three must be applicable to trigger recapture

- Borrowers will receive two disclosures that explain Recapture
 - Recapture Application Disclosure is signed at application
 - Recapture Settlement Disclosure will be mailed to the borrower post closing by AHFA at time of loan purchase.
- **Refinancing the property does not trigger recapture**



ALABAMA HOUSING FINANCE AHFA
FIRST STEP OR MCC PROGRAM
RECAPTURE APPLICATION DISCLOSURE

RECAPTURE TAX: WHAT DOES IT MEAN AND WHO WILL PAY IT?

The below-market rate on your home mortgage loan is made possible through the issuance of tax-exempt First Step Mortgage Revenue Bonds (the “Bonds”) or assistance by the Mortgage Credit Certificate Program (the “MCC”) issued by the Alabama Housing Finance AHFA. A law passed by Congress in 1988 requires homeowners who receive these Loans after December 31, 1990 to repay a portion of that subsidy if their incomes rise significantly over the first nine years of homeownership.

The potential tax, which would not be imposed until you resell the residence, increases over the first five years of ownership and decreases for the following four years. No tax will be imposed if you own your home for more than nine years.

During the nine years in which recapture may apply to you, several factors will determine the amount, if any, of recapture tax that you would pay. The tax will be based on your original mortgage amount, length of ownership, your income at time of sale, and the gain that you realize on the sale of your residence. In no instance could recapture ever equal more than half the gain on sale. In addition, if your income does not rise significantly over the life of the loan, you may not have to pay recapture tax.

If you do sell your home within the first nine years of ownership, you must pay this tax to the federal government when you file your federal tax return for the year of sale. Because your income and family size may change over the period you own your home, there is no way to predict your exact tax liability. The maximum tax you might pay, however, can be determined by multiplying your loan amount by 6.25 percent, which is the federal government’s estimate of the average mortgage subsidy.

If you sell the Residence and the new buyer agrees to assume the Mortgage Loan obligation (which may occur only if the new buyer meets the program requirements concerning principal residence, first-time home buyer [except in targeted areas] acquisition cost and income limits) you may be subject to payment of the Recapture Amount and the new buyer will be subject to the recapture provisions described herein during a new nine-year recapture period commencing on the date of the sale (a Mortgage Credit Certificate is not assumable).

All references to the sale of the Residence include any disposition, whether by sale, exchange or involuntary conversion (such as the assignment of the Mortgage Loan to an insurance company as a result of a fire), you are to assume that you sold the Residence at its fair market value. If you own the Residence with one or more persons who are also liable on the Mortgage Loan, each person’s Recapture Amount will be determined separately in accordance with their interest in the Residence. If the Mortgage Loan is fully repaid at a time prior to the sale of disposition of the Residence, you may be subject to the payment of the Recapture Amount upon such sale or disposition.

If the residence is destroyed in whole or in part by fire, storm or other casualty causing a compulsory or involuntary disposition of the Residence, you will not have to pay any Recapture Amount with respect to such disposition if, within two years after the end of the taxable year in which you receive insurance proceeds or other amounts as a result of the destruction, you purchase another principal residence on the same site. Generally, no Recapture Amount would be due if you transfer the Residence to a spouse, or a former spouse as a result of a divorce. In such event, your spouse (or former spouse) will be treated as if he or she was the owner of the Residence from the time that you purchased the Residence. No Recapture Amount will be due with respect to the Residence if the Residence is transferred as a result of your death.

THE UNDERSIGNED ACKNOWLEDGES THAT I/WE HAVE READ AND UNDERSTOOD THE ABOVE DISCLOSURE.

Date: _____ Borrower: _____

Date: _____ Co-Borrower: _____

Borrowers sign this disclosure at the time of application or at the time they choose to utilize the First Step Program. A copy of this disclosure signed by all borrowers must be in the loan file when it is uploaded to AHFA for loan purchase.

The Recapture Application Disclosure will be posted on Lender Online, AllRegs Lender Library and will be sent to your corporate office primary contact for incorporation in your application document packages.

First Step Program

Application and Closing
Documents

First Step Specific Documents

Application

- Recapture Application Disclosure
 - Borrower Affidavit
 - 2nd Mtg DPA Application
- Seller Certification Affidavit
- Mortgagee's Certification
 - Occupancy Statement

If Applicable:

Conversion Letter

- Veteran Exemption Application Declaration
 - Income Tax Statement
 - Child Support Statement

*These documents do not require notarization and are eligible for e-signature as described in the Loan Delivery Guide.

Closing

- Tax Exempt Financing Rider to Mortgage
 - FHA Tax Exempt Financing Rider
 - VA Uniform Mortgage Rider
 - Conventional/USDA Tax Exempt Financing Rider
- *These riders are attachments to the mortgage, they must be wet signed, notarized and recorded with the mortgage.



All First Step specific documents will be provided to your corporate office for inclusion in your document packages. Additionally, they are available on our AllRegs Lender Library, as well as Lender Online.

First Step Program

How the Process Works

Hang in
there, we are
almost done!

THE PROCESS



Borrowers applies for a mortgage loan through an AHFA participating lender.

If the mortgage loan application is dated prior to the Notice of Available Funds, the borrower must sign a Conversion Letter.

Lender reviews application for credit qualifying and First Step Program Eligibility.

Lender reserves the application via the Lender Online reservation system and submits the Step 1 package to AHFA within 72 hours. The Commitment Fee is wired to AHFA.

Lender submits the Step 2 package to AHFA (submission must occur prior to closing and reservation expiration date).

AHFA will review the package for compliance with program guidelines and issue a Conditional Commitment.

Loan(s) close in the lenders name. The lender will table fund the 1st and 2nd mortgages. Loan must close by the reservation expiration date.

Within 10 calendar days of loan closing, the lender submits the First Step closed loan package (Step 3) to AHFA via the Lender Online Reservation System.

Reservation Period/Commitment Fee

Reservation Periods and Fees

- 30-day = .50% of the total loan amount
- 45-day = .75% of the total loan amount
- Funds must be wired within 72 hours of loan reservation

Commitment fees are not collected for DPA reservations

• Reservation Extensions

- Extensions (must be requested prior to lock expiration)
 - .25% of total loan amount (payable w/in 72 hours of request)
 - Each extension equals 15 days
 - Maximum reservation period – 60-days

“Reservation” means “Lock”

Down Payment Assistance



Terms and Requirements

Maximum Assistance

Affordable Income Subsidy

Down Payment Assistance



- DPA Requirements
 - Funds are reserved at the same time as the 1st mortgage reservation
 - 2nd mortgage loan is reserved at the same interest rate as the first mortgage
 - 2nd mortgage Term = 10 Years
 - Borrowers must sign the 2nd Mortgage Assistance Application
 - Because it is an amortizing second mortgage the lender must have an initial/final URLA, TRID Disclosures and close with its own Note and Mortgage
- DPA Assistance Maximum
 - Lesser of 4% of the sales price or \$10,000
 - Funds may be used for down payment or closing cost assistance
 - Maximum 1st mortgage LTV
 - FHA 96.50%
 - VA- 100%
 - USDA Guaranteed 100%
 - Freddie Mac HFA Advantage program -97%



Affordable Income Subsidy (AIS)

- ❑ Available only for borrowers seeking Conventional financing under the First Step Program (Freddie Mac HFA Advantage Loans only)
- ❑ Funds must be used in the transaction (no cash back to the borrower)
- ❑ Maximum Assistance
 - ❑ AMI between 80% - 50.01% = .50% of the loan amount
 - ❑ AMI below 50% - 1% of the loan amount



• ***Homebuyer Education Requirements***

- At least one borrower must complete a HBE course **PRIOR** to loan closing.
- Acceptable curriculums include: all HUD approved curriculums, Freddie Mac's Homebuyer U, NeighborWorks, and the approved PMI companies' curriculums.
- Evidence of course curriculum completion certificate must be included in the closed loan package.

Fees

Commitment fee/Extension fees- paid at the time of reservation. Based on the reservation period

Maximum Origination Fee charged by lender may not exceed .50%

Tax Service Fee \$80
Funding Fee \$211
paid at the time of loan purchase (deducted from the loan funding)

All other fees to the lender are capped at \$1300
(i.e., underwriting, processing, admin...)



AHFA Programs

First Step Program

Below market rate mortgage program with a 30-year first mortgage and a 10-year 2nd mortgage (DPA)

Step Up Program

Market Rate mortgage option with a 30-year 1st mortgage and a 10-year 2nd mortgage(DPA)

Mortgage Credit Certificate Program

Mortgage credit program that reduces the amount of federal income tax a homebuyer is required to pay. Cannot be combined with a MRB loan(First Step Program).

Contact Information

Get in Touch



MAILING ADDRESS

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

WEBSITE

www.AHFA.com

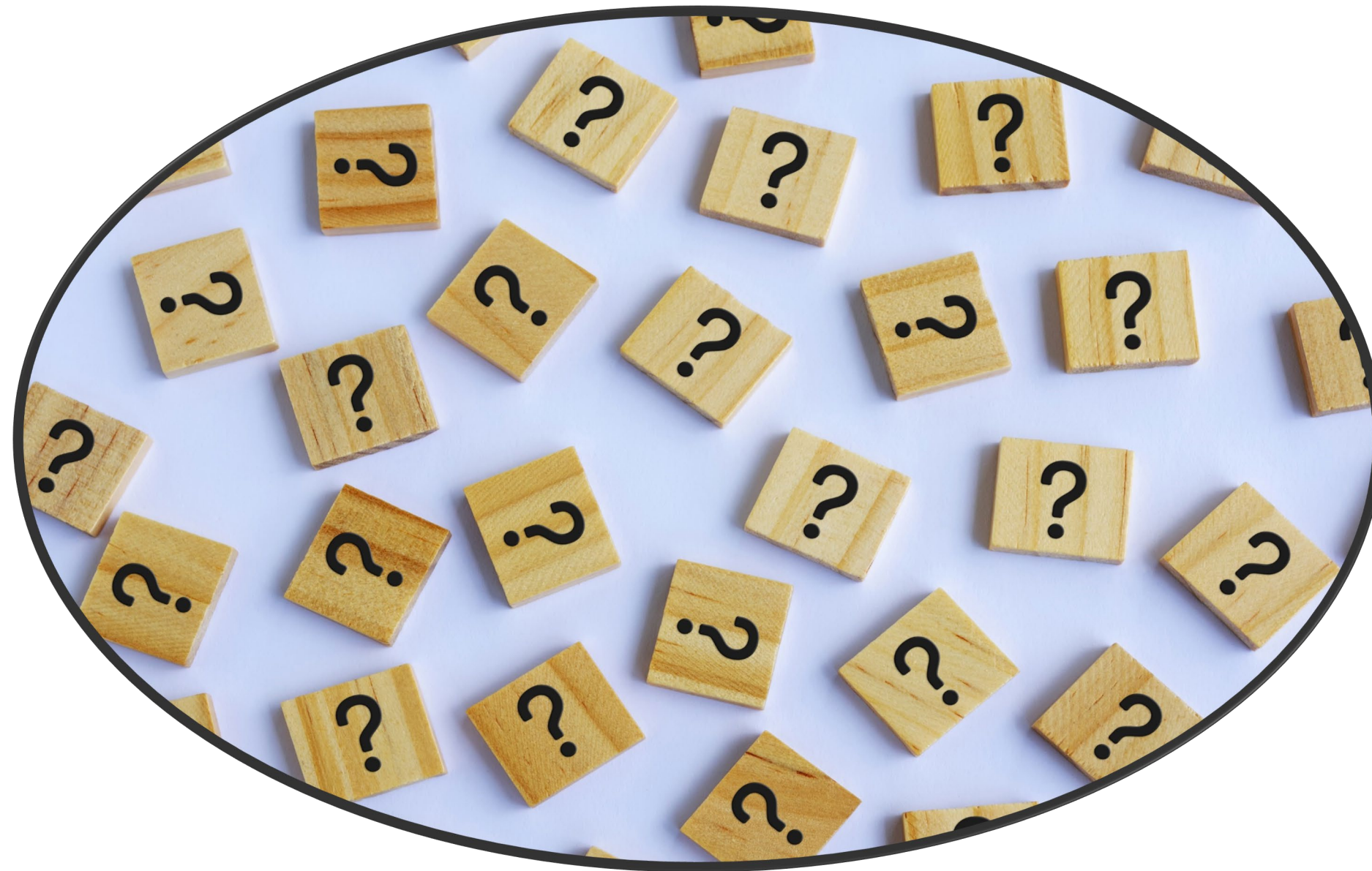
PHONE NUMBER

(334) 244 9200

STAY CONNECTED



Questions ?



CONTACT US



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Thank You!



**ALABAMA HOUSING
FINANCE AUTHORITY**

Come on home, Alabama.

MAKING
homeownership
AFFORDABLE