REMARKETING **RATINGS:** Moody's: Aa1/VMIG1
S&P: AA+/A-1+
(See "Ratings" herein.)

This Supplement No. 1 (this "Supplement") to the original Official Statement, dated February 9, 2006 (the "Original Official Statement"), relating to the bonds referenced below, supplements and amends the Original Official Statement relating to such bonds and should be read in conjunction with the Original Official Statement attached hereto as Appendix G. (The Original Official Statement as amended and supplemented by this Supplement is referred to herein as the "Official Statement.")

Dorsey & Whitney LLP, Minneapolis, Minnesota, rendered an opinion of Bond Counsel on the original date of issuance of the Series Bonds, that, under then-existing laws, regulations, rulings and judicial decisions and assuming compliance with certain covenants of the Agency intended to assure compliance with the applicable provisions of the Code, interest on the 2006 Series C Bonds is not includable in gross income of the owners thereof for federal income tax purposes or taxable net income of individuals, trusts and estates for Minnesota income tax purposes. (See "Tax Exemption and Related Considerations" in the Original Official Statement for additional information, including information on the application of federal and state alternative minimum tax provisions to the 2006 Series C Bonds.) In the opinion of Kutak Rock LLP, Atlanta, Georgia, to be dated concurrently with the delivery of the Replacement Liquidity Facility, the delivery of the Replacement Liquidity Facility, in and of itself, will not adversely affect the exclusion of interest on the 2006 Series C Bonds from gross income for federal income tax purposes, assuming it otherwise exists. (See "Tax Exemption" in this Supplement.)

Minnesota Housing Finance Agency

MINNESOTA HOUSING FINANCE AGENCY
Residential Housing Finance Bonds, 2006 Series C (AMT)
$22,385,000 Variable Rate Demand Term Bonds due January 1, 2037
Dated: March 21, 2006 (CUSIP 60415NZB1*)

The Minnesota Housing Finance Agency (the "Agency") issued its Residential Housing Finance Bonds, 2006 Series C (the "2006 Series C Bonds") on March 21, 2006, pursuant to a resolution of the Agency adopted as amended and restated on August 24, 1995, and as heretofore or hereafter further amended and supplemented in accordance with its terms (the "Bond Resolution"), and a series resolution of the Agency adopted on January 26, 2006 (the "2006C Series Resolution"). (The Bond Resolution and the 2006C Series Resolution are herein sometimes referred to as the "Resolutions.") The 2006 Series C Bonds were issued simultaneously with the Agency's Residential Housing Finance Bonds, 2006 Series A, and 2006 Series B (collectively, with the 2006 Series C Bonds, the "Series Bonds").

Pursuant to the 2006C Series Resolution, the Agency obtained an initial Liquidity Facility, in the form of a Standby Bond Purchase Agreement, dated as of March 21, 2006, as amended and supplemented by a First Amendment to Standby Bond Purchase Agreement, dated as of March 7, 2007 and a Second Amendment to Standby Bond Purchase Agreement, dated as of May 17, 2007, each between the Agency, State Street Bank and Trust Company, and Wells Fargo Bank, National Association, as Trustee and Tender Agent (the "Initial Liquidity Facility"). The Initial Liquidity Facility will expire on March 21, 2013. The Agency will enter into an Alternate Liquidity Facility with an effective date of March 13, 2013 in the form of a Standby Bond Purchase Agreement dated as of March 1, 2013 (the "Replacement Liquidity Facility"), among the Agency, Wells Fargo Bank, National Association (the "Replacement Liquidity Provider"), and Wells Fargo Bank, National Association, as trustee.

In the event that the proceeds of a remarketing of the 2006 Series C Bonds following an optional or mandatory tender as provided in the 2006C Series Resolution are insufficient to pay the purchase price of the 2006 Series C Bonds so tendered, the Replacement Liquidity Provider will purchase such 2006 Series C Bonds in accordance with the terms of the Replacement Liquidity Facility. The Replacement Liquidity Facility will expire on March 12, 2015, subject to extension or earlier termination, as described in this Supplement, and may terminate, under certain circumstances without prior notice to Bondowners or without an opportunity to tender the 2006 Series C Bonds for purchase. (See "The Replacement Liquidity Facility" and "Remarketing of 2006 Series C Bonds" in this Supplement.)

The Official Statement is intended to provide information regarding the 2006 Series C Bonds only when the 2006 Series C Bonds bear interest at the Weekly Rate and only while the Replacement Liquidity Facility is in effect.

This cover page contains certain information for quick reference only. It is not a summary of the 2006 Series C Bonds. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

The 2006 Series C Bonds are being remarketed by Wells Fargo Bank, National Association, the current Remarketing Agent, subject to certain other conditions. Certain legal matters relating solely to the Replacement Liquidity Facility will be passed on for the Replacement Liquidity Provider by Chapman and Cutler LLP, Chicago, Illinois. CSG Advisors Inc. is serving as financial advisor to the Agency in connection with the remarketing of the 2006 Series C Bonds. The Remarketing Agent intends, but is not obligated, to make a market in the 2006 Series C Bonds. It is expected that the 2006 Series C Bonds will be available through the facilities of DTC, New York, New York, on March 13, 2013.

The date of this Supplement is March 12, 2013.

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* The CUSIP number has been assigned by an organization not affiliated with the Agency and is included for the convenience of the owners of the 2006 Series C Bonds. The Agency is not responsible for the selection or uses of this CUSIP number, nor is any representation made as to its correctness on the 2006 Series C Bonds or as indicated above. A CUSIP number may be changed after the issuance date. CUSIP® is a registered trademark of the American Bankers Association.

No dealer, broker, salesman or other person has been authorized by the Minnesota Housing Finance Agency, the Remarketing Agent or the Replacement Liquidity Provider to give any information or representations, other than those contained in the Official Statement and, if given or made, such other information or representations must not be relied upon as having been an offer to buy nor shall there be any sale of the 2006 Series C Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Supplement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Agency or the Replacement Facility Provider since the date hereof.

The Official Statement contains statements which, to the extent they are not recitations of historical fact, constitute "forward-looking statements." In this respect, the words "estimate," "intend," "expect," and similar expressions are intended to identify forward-looking statements. A number of important factors affecting the Agency, its Program, the 2006 Series C Bonds or the Replacement Facility Provider could cause actual results to differ materially from those contemplated in the forward-looking statements.

The Remarketing Agent has provided the following sentence for inclusion in this Supplement. The Remarketing Agent has reviewed the information in the Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Remarketing Agent does not guarantee the accuracy or completeness of such information.

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SUPPLEMENT NO. 1 TO OFFICIAL STATEMENT
relating to
$22,385,000
MINNESOTA HOUSING FINANCE AGENCY
RESIDENTIAL HOUSING FINANCE BONDS, 2006 SERIES C

INTRODUCTION

This Supplement No. 1 to the Official Statement (this "Supplement") (which includes the cover page, inside front cover and Appendices) provides certain information concerning the Minnesota Housing Finance Agency (the "Agency"), created by Minnesota Statutes, Chapter 462A, as amended (the "Act"), and its Residential Housing Finance Bonds, 2006 Series C (the "2006 Series C Bonds"), in connection with the remarketing of the 2006 Series C Bonds and the provision of an Alternate Liquidity Facility. This Supplement supplements and amends the original Official Statement, dated February 9, 2006, relating to the 2006 Series C Bonds (the "Original Official Statement"), and should be read in conjunction with the Original Official Statement attached as Appendix G to this Supplement. (The Original Official Statement as amended and supplemented by this Supplement is referred to herein as the "Official Statement.")

The 2006 Series C Bonds were issued pursuant to the Act, a resolution of the Agency adopted as amended and restated on August 24, 1995, and as heretofore or hereafter further amended and supplemented in accordance with its terms (the "Bond Resolution"), and a series resolution of the Agency adopted January 26, 2006 (the "2006C Series Resolution"). (The Bond Resolution and the 2006C Series Resolution are herein sometimes referred to as the "Resolutions.") The 2006 Series C Bonds were issued simultaneously with the Agency's Residential Housing Finance Bonds, 2006 Series A, and 2006 Series B (collectively, with the 2006 Series C Bonds, the "Series Bonds").

The 2006 Series C Bonds are being remarketed in connection with the replacement of the initial liquidity facility, in the form of a Standby Bond Purchase Agreement, dated as of March 21, 2006, as amended and supplemented by a First Amendment to Standby Bond Purchase Agreement, dated as of March 7, 2007 and a Second Amendment to Standby Bond Purchase Agreement, dated as of May 17, 2007, each between the Agency, State Street Bank and Trust Company, and Wells Fargo Bank, National Association, as Tender Agent (the "Initial Liquidity Facility"). The Initial Liquidity Facility will expire on March 21, 2013. The Agency will enter into an Alternate Liquidity Facility with an effective date of March 13, 2013 in the form of a Standby Bond Purchase Agreement dated as of March 1, 2013 (the "Replacement Liquidity Facility"), among the Agency, Wells Fargo Bank, National Association (the "Replacement Liquidity Provider"), and Wells Fargo Bank, National Association, as trustee (the "Trustee").

The Replacement Liquidity Facility will be delivered on March 13, 2013, and will provide for the purchase by the Replacement Liquidity Provider on the terms and conditions specified therein of tendered 2006 Series C Bonds that have not been remarketed. If the Replacement Liquidity Facility is to expire or terminate according to its terms (other than as a result of a Termination Event thereunder) or is to be replaced with another Liquidity Facility, the 2006 Series C Bonds are subject to mandatory tender. **If a Termination Event or Suspension Event has occurred under the Replacement Liquidity Facility, the Replacement Liquidity Provider will have no obligation to purchase the 2006 Series C Bonds and the Remarketing Agent will be entitled to suspend its efforts to remarket 2006 Series C Bonds.** (See "Remarketing of the 2006 Series C Bonds—Agency Not Responsible to Bondowners for Replacement Liquidity Provider's Failure To Purchase 2006 Series C Bonds" and "Replacement Liquidity Facility" in this Supplement.)

The Resolutions should be referred to for the definitions of capitalized terms used in the Official Statement, some of which are reproduced in the Official Statement. The summaries and references in the Official Statement to the Act, the Resolutions and other documents are only outlines of certain provisions and do not purport to summarize or describe all the provisions thereof. All references in the Official Statement to the Act and the Resolutions are qualified in their entirety by reference to the Act and the Resolutions, copies of which are available from the Agency, and all references to the 2006 Series C Bonds are qualified in their entirety by reference to the definitive forms thereof and the information with respect thereto contained in the Resolutions.

The proceeds of the Series Bonds were used by the Agency to refund certain outstanding qualified mortgage bonds of the Agency and provide money for the Agency to be used, along with certain contributed funds of the Agency, to continue its Program through the purchase of Program Loans made by Lenders to low and moderate income persons for single family, owner-occupied housing within the State, to make a deposit to the Debt Service Reserve Fund and to pay certain costs of issuance of the Series Bonds.

The 2006 Series C Bonds bear interest at a rate determined weekly (the "Weekly Mode"), unless 2006 Series C Bonds are converted to a different interest-rate-setting mode (a "Mode") as described in the Original Official Statement and in accordance with the terms of the Replacement Liquidity Facility. Except as otherwise described in the Official Statement, so long as the 2006 Series C Bonds are in the Weekly Mode, the owners of any 2006 Series C Bonds are entitled to demand purchase of such 2006 Series C Bonds at a purchase price equal to the principal amount thereof plus accrued interest, if any, to the date of purchase, upon satisfaction of the terms and conditions described in the Original Official Statement. The 2006 Series C Bonds are also subject to mandatory tender for purchase under certain circumstances. Wells Fargo Bank, National Association will act as the remarketing agent for the 2006 Series C Bonds (the "Remarketing Agent") pursuant to a Remarketing Agreement, dated as of June 4, 2008 (the "Remarketing Agreement"), between the Agency and the Remarketing Agent. (See "Description of the Series Bonds—Optional and Mandatory Tender of Certain 2006 Series C Bonds" in the Original Official Statement and "Remarketing of 2006 Series C Bonds" in this Supplement.)

The Official Statement is intended to provide information to prospective owners of 2006 Series C Bonds while the 2006 Series C Bonds are in the Weekly Mode and while the Replacement Liquidity Facility remains in effect, and is not intended to be relied upon by prospective owners of 2006 Series C Bonds with respect to which a Mode Change or a Conversion Date has occurred or while an Alternate Liquidity Facility is in effect. The delivery of an updated disclosure document is a condition of a Mode Change or Conversion and the related remarketing of 2006 Series C Bonds.

The 2006 Series C Bonds are secured, on a parity with Outstanding Bonds heretofore and hereafter issued under the Bond Resolution (except as otherwise expressly provided therein), by a pledge of all Program Obligations, Investment Obligations, Revenues and other assets held and received by the Agency pursuant to the Bond Resolution. The 2006 Series C Bonds are also general obligations of the Agency payable from any of its moneys, assets or revenues, subject only to the provisions of other resolutions or indentures now or hereafter pledging and appropriating particular moneys, assets or revenues to particular notes or bonds, or State or federal laws or restrictions that particular funds be applied for a specified purpose. The net assets of the General Reserve and Alternative Loan Fund are legally available if needed to pay debt service on any obligations of the Agency, including the 2006 Series C Bonds. (See "The Agency – Net Assets Restricted By Covenant and Operations to Date – General Reserve; Alternative Loan Fund" in this Supplement.) (For purposes of the Resolutions, the General Reserve is designated as the "General Reserve Account.")

The Agency has no taxing power. Neither the State of Minnesota nor any political subdivision thereof is or shall be obligated to pay the principal or redemption price of or interest on the 2006 Series C Bonds and neither the faith and credit nor the taxing power of the State or any political subdivision thereof is pledged to such payment.

THE AGENCY

The following information supplements and modifies, to the extent inconsistent therewith, the information in the Original Official Statement under the heading "The Agency."

Structure

Under the Act, the membership of the Agency consists of the State Auditor and six public members appointed by the Governor with the advice and consent of the Senate for terms of four years. Pursuant to the Act, each member continues to serve until a successor has been appointed. The Chairman of the Agency is designated by the Governor from among the appointed public members. Pursuant to state law, the State Auditor may delegate duties and has delegated her duties as a member of the Agency in the event that the Auditor is unable to attend a meeting of the Agency.

The present members of the Agency, who serve without compensation (except for per diem allowance and expenses for members not otherwise compensated as public officers), are listed below.

> *Kenneth R. Johnson*, Chairman – Term expires January 2015, Woodbury, Minnesota – Retired Economic Development Executive
>
> The Honorable *Rebecca Otto* — *Ex officio*, St. Paul, Minnesota – State Auditor
>
> *Joseph Johnson III*, Vice Chairman — Term expires January 2017, Duluth, Minnesota – Banker
>
> *Steven Johnson*, Member — Term expires January 2014, Apple Valley, Minnesota – Chief Financial Officer
>
> *Gloria J. Bostrom*, Member — Term expires January 2016, Roseville, Minnesota – Retired
>
> *John DeCramer*, Member — Term expires January 2016, Marshall, Minnesota – Magnetics Engineer
>
> *Stephanie Klinzing*, Member – Term expires January 2015, Elk River, Minnesota – Writer and Publisher

Staff

The staff of the Agency presently consists of approximately 220 persons, including professional staff members who have responsibilities in the fields of finance, law, mortgage underwriting, architecture, construction inspection and housing management. The Attorney General of the State of Minnesota provides certain legal services to the Agency.

The Commissioner is appointed by the Governor. The Act authorizes the Commissioner of the Agency to appoint such permanent and temporary employees as the Commissioner deems necessary subject to the approval of the Commissioner of Management and Budget.

The principal officers and staff related to the Program are as follows:

Mary Tingerthal — Commissioner. Ms. Tingerthal was appointed Commissioner effective February 2011. Before her appointment, Ms. Tingerthal was President of Capital Markets Companies for the Housing Partnership Network where she coordinated the work of the Housing Partnership Fund, which provides acquisition and predevelopment financing; Housing Partnership Ventures, which serves as the Network's investment vehicle; the Charter School Financing Partnership, a new conduit for charter school loans; and the Network's housing counseling intermediary and neighborhood stabilization programs. In 2008, she was instrumental in establishing the National Community Stabilization Trust -- a nationwide company dedicated to helping local organizations put vacant and foreclosed properties back into productive reuse. Prior to that, Ms. Tingerthal held senior management positions with the National Equity Fund, GMAC Residential Funding, the City of Saint Paul, and the Community Reinvestment Fund. She worked for the Agency beginning in the late 1970s when she spent 10 years working with the Agency's home improvement division. Ms. Tingerthal holds a Master's Degree in Business from Stanford Graduate School of Business, and a Bachelor of Arts Degree from the University of Minnesota. She serves as the vice chair of the Consumer Advisory Council to the Federal Reserve Board and serves on the Boards of the National Housing Trust, the National Community Investment Fund, and on the investment committee of the Calvert Foundation.

Barbara Sporlein — Deputy Commissioner, appointed effective November 2011. Her primary responsibilities are talent management, agency-wide planning, inter-agency collaboration, and credit risk management. Prior to this position, Ms. Sporlein was the Director of Planning for the City of Minneapolis between 2004 and 2011. As Planning Director she was responsible for the City's long range planning, transportation planning, development consultation and review, heritage preservation, environmental review, public art program, and zoning administration and enforcement. Prior to that position, Ms. Sporlein served as the Deputy Director of the Saint Paul Public Housing Agency between 1994 and 2004, and as a City Planner for the City of Saint Paul from 1990 to 1994. Ms. Sporlein has a Bachelor of Science Degree in Geography from the University of Wisconsin-Madison, a Master of Planning Degree from the Humphrey School of Public Affairs at the University of Minnesota, and a Certificate in Advanced Studies in Public Administration from Hamline University. Ms. Sporlein serves on the Board of Directors for the Daniel Rose Center for Public Leadership in Land Use, and is a member of the Citizens League, the Urban Land Institute, the Minnesota Chapter of National Association of Housing and Redevelopment Organizations, and the American Planning Association. Ms. Sporlein is a Certified Public Housing Manager and Housing Finance Professional.

Don Wyszynski — Chief Financial Officer, appointed effective September 2011. Mr. Wyszynski has served as the Agency's Director of Financial Strategy since September 2006, and has previous experience working for the Agency as Finance Director (1976-1978) and Deputy Director (1978-1981). In between, he was an investment banker for RBC Capital Markets, LLC and its predecessor companies from 1991 to 2006 working with various municipal issuers and housing finance agencies in the Midwest, and from 1981 to 1991 he served as a municipal financial advisor for Evensen Dodge Inc. Mr. Wyszynski started his professional career as a public accountant, and has a Bachelors degree in Business Administration from the University of Minnesota.

William Kapphahn — Director of Finance effective September 2008. Mr. Kapphahn has managed debt and investments for the Agency since September 2007. Previously Mr. Kapphahn was Controller for the Agency from November 1998 to September 2007. From June 1996 to October 1998, he was Director of Finance and Administration at Children's Home Society and Family Services with responsibility for accounting, information systems, and facility management. Previous to that, he held various accounting positions of increasing responsibility at The Saint Paul Foundation, Amherst H. Wilder Foundation, Servomation Corporation, and Land O' Lakes, Inc. Mr. Kapphahn holds a Masters degree in Business Administration with a concentration in Finance and a Bachelor of Arts degree in Business Administration from the University of St. Thomas, St. Paul, Minnesota.

Paula Beck — General Counsel, appointed effective October 2011. Ms. Beck's previous experience with the Agency includes her role as Counsel from 2009 until her General Counsel appointment and as an Assistant Attorney General representing the Agency from 1999 to 2004. From 2004 to 2009, Ms. Beck served as Associate General Counsel for Sherman Associates, Inc., a Minneapolis-based developer of residential and commercial real estate, including affordable housing, and from 1997 to 1999, she was an associate at the Minneapolis-based law firm of Leonard, Street and Deinard. Ms. Beck earned her law degree from Harvard Law School and holds a Bachelor of Arts degree from Swarthmore College in Pennsylvania.

Michael A. Haley — Assistant Commissioner, Minnesota Single Family Division since September 1980. From January 1972 to September 1980, he was Assistant Vice President of the Marquette National Bank of Minneapolis with responsibility for the Bank's residential mortgage operations which included secondary market sales and operations, business development and mortgage loan underwriting and approval. Mr. Haley has a Masters degree in Business Administration and a Bachelor of Arts degree from the University of St. Thomas, St. Paul, Minnesota. Mr. Haley also is a graduate of the Mortgage Bankers Association of America School of Mortgage Banking.

The Agency's offices are located at 400 Sibley Street, St. Paul, Minnesota 55101, and its general telephone number is (651) 296-7608. The Agency's Investor Relations Representative may be reached at the Agency's general telephone number. The Agency's website address is http://www.mnhousing.gov. No portion of the Agency's website is incorporated into the Official Statement.

Independent Auditors

The financial statements of the Agency as of and for the year ended June 30, 2012, included in this Supplement as Appendix A have been audited by CliftonLarsonAllen LLP (formed as a result of the merger of LarsonAllen LLP and Clifton Gunderson LLP on January 2, 2012), independent auditors, as stated in their report appearing herein.

The auditors have not performed any agreed-upon procedures in respect of any financial statements of the Agency after June 30, 2012.

Financial Statements of the Agency

The Agency financial statements included in this Supplement as Appendix A as of and for the fiscal year ended June 30, 2012 are presented in combined "Agency-wide" form followed by "fund" financial statements presented for its major funds in order to comply with the requirements of Statement No. 34 of the Governmental Accounting Standards Board.

In Appendix B to this Supplement, the Agency has included certain unaudited financial statements of the Agency (excluding State Appropriated and Federal Appropriated Funds) as of and for the six months ended December 31, 2012. The information in Appendix B has been prepared by the Agency and, in the opinion of the Agency, reflects all normal recurring adjustments and information necessary for a fair statement of the financial position and results of operations of those Funds for the period, subject to year-end adjustments. The information in Appendix B is not accompanied by a statement from the independent auditors.

Disclosure Information

The Agency has covenanted for the benefit of the Beneficial Owners (as defined in Appendix C of the Original Official Statement) of the Series Bonds to provide annually certain financial information and operating data relating to the Agency (the "Agency Annual Report") and to provide notices of the occurrence of certain enumerated events, if material. The Agency Annual Report is to be filed by the Agency no later than nine months after the close of each fiscal year, with the Municipal Securities Rulemaking Board's internet repository named "Electronic Municipal Market Access" ("EMMA"), the only Nationally Recognized Municipal Securities Information Repository. The notices of material events, if any, are to be filed with EMMA.

The specific nature of the information to be contained in the Agency Annual Report or the notices of material events, and the manner in which such materials are filed, are summarized in "Appendix C — Summary of Continuing Disclosure Agreement" in the Original Official Statement. These covenants have been made in order to assist the Underwriters in complying with SEC Rule 15c2-12(b)(5) (the "Rule"). During the past five years, the Agency has not failed to comply in any material respect with any previous undertakings it has entered into with respect to the Rule.

In addition to the Agency Annual Report required by the Continuing Disclosure Agreement, the Agency also uses its best efforts to prepare a quarterly disclosure report for each of its single family bond resolutions (including the Bond Resolution) and a semiannual disclosure report for its rental housing bond resolution. Recent reports are available at the Agency's website at http://www.mnhousing.gov/investors, but no information on the Agency's website is incorporated into the Official Statement. The Agency is also committed to providing appropriate credit information as requested by the rating agencies rating the Bonds.

Net Assets Restricted By Covenant and Operations to Date—General Reserve; Alternative Loan Fund

In addition to its bond funds pledged to the payment of particular bonds by bond resolutions of the Agency, the Agency has also established certain other funds that it has restricted by covenant. Currently, the restricted funds are the General Reserve and the Alternative Loan Fund. The General Reserve contains the Housing Endowment Fund (also referred to as "Pool 1") and the Agency's net investment in capital assets. The Alternative Loan Fund, which is held under the Bond Resolution but is not pledged to pay Bonds, comprises the Housing Investment Fund (also referred to as "Pool 2") and the Housing Affordability Fund (also referred to as "Pool 3"). The net assets of the General Reserve and the Alternative Loan Fund are not pledged to the payment of the Bonds or any other debt obligations of the Agency but, to the extent funds are available therein, are generally available to pay any debt obligations of the Agency, including the Bonds.

Subject to the restrictions in the Bond Resolution and its other respective bond resolutions, the Agency may withdraw excess assets from bond funds held thereunder. To the extent the Agency withdraws excess assets from bond funds, the Agency has pledged to deposit such excess assets in the General Reserve or the Alternative Loan Fund, except for any amounts as may be necessary to reimburse the State for money appropriated to restore a deficiency in any debt service reserve fund.

The Agency has further covenanted that it will use the money in the General Reserve and the Alternative Loan Fund only for the administration and financing of programs in accordance with the policy and purpose of the Act, including the creation of reserves for the payment of bonds and for loans made from the proceeds thereof, and to accumulate and maintain therein such a balance of funds and investments as will be sufficient for that purpose. To ensure that assets available in the General Reserve and the Alternative Loan Fund provide security for the Agency's bondowners as covenanted in the bond resolutions, the Agency has established investment guidelines for Pools 1 and 2. The investment guidelines are subject to change by the Agency from time to time in its discretion.

Under the investment guidelines effective July 1, 2007 (as amended by a resolution adopted September 24, 2009), the required size of Pool 1 (which is intended to be a liquidity reserve) is 1% of gross loans receivable (excluding mortgage-backed securities, appropriated loans and loans credited to Pool 3) and the required size of Pool 2 is an amount that would cause the combined net assets (exclusive of unrealized gains and losses resulting from marking to market investment securities, including mortgage-backed securities, and swaps entered into by the Agency for which the unrealized loss or gain will not be realized if the security or swap is held to maturity or its optional termination date) in the General Reserve, in Pool 2, and in the funds pledged under bond resolutions to be the greater of $615 million or the combined net assets of the same funds as of the immediately preceding fiscal year end. Currently, this amount is $675.36 million, representing the combined net assets of these funds so calculated as of June 30, 2012. Pool 2 is intended to comprise amortizing interest-bearing housing loans or investment grade securities. Pool 1 and Pool 2 represent, with assets pledged to pay bonds of the Agency, the sustainable lending operations of the Agency. Pool 3 represents the more mission-intensive operations of the Agency and is intended to comprise deferred, zero percent and low interest-rate loans and grants and, for unapplied funds, investment grade securities. Pool 3 is not subject to the investment guidelines. Loan activity related to loans financed by funds in Pool 2 and Pool 3 is recorded as part of the Alternative Loan Fund. All interfund transfers are approved by the Agency. A further discussion of Pools 1, 2 and 3 and the amounts credited thereto as of June 30, 2012 appears in the notes to the financial statements of the Agency included in Appendix A to this Supplement under the heading "Net Assets Restricted by Covenant" at pages 54 and 55 therein (however, the amounts of the Pool 2 requirement as of June 30, 2012 and June 30, 2011 on page 54 therein stated as combined net assets fail to exclude unrealized gains and losses as described above and thus overstate the Pool 2 requirement).

The following summary indicates the revenues earned, the expenses paid, and funds transferred to and from the General Reserve (which contains Pool 1 and net investment in capital assets), for the two most recent audited fiscal years of the Agency and for the six-month period ended December 31, 2012 (unaudited) (in thousands):

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	Six Months Ended December 31, 2012 (unaudited)	Fiscal Year Ended June 30, 2012	Fiscal Year Ended June 30, 2011
Revenues			
Fees earned and other income[1]	$4,331	$ 8,865	$10,289
Interest earned on investments	64	63	292
Unrealized gain (loss) on investments	--	70	(95)
Administrative reimbursement[2], [3]	9,813	21,622	20,733
Total revenues	14,208	30,620	31,219
Expenses			
Salaries and benefits	9,334	17,541	17,716
Other general operating expenses	2,970	5,236	5,714
Total expenses	12,304	22,777	23,430
Revenues over expenses	1,904	7,843	7,789
Non-operating transfer of assets between funds[4]	(3,010)	(9,659)	(10,029)
Change in net assets	(1,106)[5]	(1,816)[5]	(2,240)[5]
Net assets beginning of period	20,113	21,929	24,169
Net assets end of period	$19,007	$20,113	$21,929

(1) Fees earned consist primarily of fees collected in conjunction with the administration of the low income housing tax credit program and HUD contract administration of certain non-Agency financed Section 8 developments.

(2) Reimbursement from bond funds are transferred to the General Reserve in accordance with the Agency's Affordable Housing Plan based on adjusted assets. Adjusted assets are defined generally as total assets excluding the reserve for loan loss, unearned discounts on loans, premiums on loans, unamortized bond issuance costs, unrealized gains or losses on investments (including mortgage-backed securities and interest rate swap agreements), deferred loss on interest rate swap agreements and assets relating to escrowed debt.

(3) Reimbursement from appropriated accounts consists of the portion of direct and indirect costs of administering the programs funded by the appropriations. Costs associated with administering state appropriations are recovered only to the extent of interest earnings on the appropriations. Costs associated with administering federal appropriations generally are recovered from the appropriations.

(4) Excess assets from bond funds may be transferred to the General Reserve to the extent permitted by the resolution or indenture securing bonds of the Agency. In addition, funds in excess of the requirement for Pool 1 may be transferred from the General Reserve to the Alternative Loan Fund. See the comments under the heading "Net Assets Restricted by Covenant" in the notes to the financial statements of the Agency in Appendix A to this Supplement for additional information.

(5) The significant reductions in net assets for fiscal years 2011 and 2012 and the first six months in fiscal year 2013 reflect the reduction in the amount required to be retained in Pool 1 under the investment guidelines described above due to the fact that the Agency's whole loan single family mortgage loan portfolio is in runoff (as a result of transition to an MBS model (see "The Residential Housing Finance Program—History and Transition to 'MBS'Model")). In addition, for each period there has also been a reduction in the carrying amount of certain net assets invested in capital assets.

State Appropriations

Over the years, the State Legislature has appropriated funds to the Agency to be used for low interest loans, grants, programs for low and moderate income persons and families and other housing related program costs. The Agency generally does not pay its general or administrative expenses from appropriated funds, although it can recover its allocable costs of administering State appropriations from investment earnings thereon. The State Legislature has appropriated funds to the Agency for its programs in every biennium since 1975. Most of the appropriations have been expended or committed by the Agency.

Over the past five years, appropriations to the Agency have totaled approximately $293.6 million. Because of estimated State budget deficits for the biennium ended June 30, 2009, the Governor, among other actions, reduced by executive action the Agency's uncommitted and unexpended appropriations by $4 million, reducing the Agency's appropriations for that biennium to $129.6 million. For the biennium ended June 30, 2011, the Legislature appropriated approximately $86.7 million to the Agency. To balance the budget in the first fiscal year of that biennium, the Governor effected unallotments in the aggregate amount of $695 million, including $512,000 of funds otherwise appropriated to the Agency. The Legislature adopted a supplemental budget bill reducing appropriations to the Agency in that biennium by an additional $4.2 million.

For the current biennium ending June 30, 2013, which had a projected $5 billion State budget deficit, the Legislature appropriated approximately $76.1 million to the Agency, reflecting a reduction of approximately 6.3% to the Agency's base budget. The Agency does not expect that this reduction in appropriations will adversely affect its ability to operate the Program.

The appropriations are not available to pay debt service on the Bonds.

Agency Indebtedness

The principal amount of bonds and notes of the Agency which are outstanding at any time (excluding the principal amount of any refunded bonds and notes) is limited to $5,000,000,000 by State statute. The following table lists the principal amounts of general obligation indebtedness of the Agency outstanding as of December 31, 2012:

	Number of Series*	Final Maturity	Original Principal Amount* (in thousands)	Principal Amount Outstanding (in thousands)
Rental Housing Bonds	15	2048	$ 150,825	$ 86,950
Residential Housing Finance Bonds	60	2048	2,146,125	1,356,720
Homeownership Finance Bonds	16	2042	674,675	633,144
Multifamily Housing Bonds (Treasury HFA Initiative)	1	2051	15,000	14,970
Totals	92		$2,986,625	$2,091,784

*Does not include series of bonds or the original principal amount of any bonds that had been, as of December 31, 2012, defeased or paid in full, whether at maturity or earlier redemption.

The payment of principal of and interest on general obligations of the Agency as shown above may be made, if necessary, from the General Reserve or the Alternative Loan Fund. (See "Net Assets Restricted By Covenant and Operations to Date—General Reserve; Alternative Loan Fund" above.)

The Agency has entered into certain liquidity facilities and interest rate swap agreements in respect of certain of its outstanding Bonds that bear interest at a variable rate and are subject to optional and mandatory tender. Certain information related to such variable rate bonds and swap agreements is included in the notes to the audited financial statements contained in Appendix A to this Supplement and in the unaudited financial statements contained in Appendix B to this Supplement. No representation is made as to the creditworthiness of any provider or counterparty on such facilities and agreements.

The Agency has issued its limited obligation notes from time to time for the purpose of preserving private activity bond volume cap by refunding the maturing principal or redemption price, as the case may be, of bonds previously issued by the Agency or by issuing a new money obligation. As of December 31, 2012, no such limited obligation notes were outstanding.

In 2009, the Agency issued $13,270,000 in aggregate principal amount of its Nonprofit Housing Bonds (State Appropriation), Series 2009, to finance permanent supportive housing in two different multifamily housing developments. In 2011, the Agency issued $21,750,000 in aggregate principal amount of its Nonprofit Housing Bonds (State Appropriation), Series 2011, to finance permanent supportive housing in five additional multifamily housing developments. Both series of bonds were issued under a separate indenture of trust, are not general obligations of the Agency and are not payable from any funds or assets of the Agency other than the appropriations the Agency expects to receive from the State General Fund pursuant to a standing appropriation made by the Legislature in 2008.

Disruptions in Mortgage and Financial Markets

Over the last six years, significant dislocations in the housing and mortgage markets have negatively affected general capital markets conditions, including the municipal bond market. During 2008 market dislocations led to the failure of the auction rate securities market, widening of municipal bond spreads and failed remarketings of variable rate demand obligations as a result of credit downgrades among liquidity providers and lack of market liquidity. While conditions have improved, market uncertainty still remains in the current economic environment.

As a state housing finance agency, the Agency has relied on municipal bond markets operating efficiently to fund its Program. Since the last half of 2008, these markets have not performed well, based on historical market relationships. Recent responses by the federal government and the Federal Reserve to address the housing market crisis and to lower long-term interest rates made it very difficult for state housing finance agencies, such as the Agency, to fund their operations profitably through the housing bond market. The Agency was able under its Homeownership Finance Bond Resolution to issue $260,490,000 in aggregate principal amount of bonds under the Single Family New Issue Bond Program announced by the United States Department of the Treasury, Fannie Mae and Freddie Mac in late 2009, together with $289,185,000 in aggregate principal amount of related market bonds. The Agency has exhausted its authority under the Single Family New Issue Bond Program and must again rely on the housing bond market. Unfortunately, the dislocation of historical market relationships has continued and without subsidy of some kind (such as from an economic refunding) generally the Agency cannot effectively issue bonds utilizing traditional bond structures to finance single family mortgage loans at competitive interest rates and may have to turn to other funding sources. In the last six months, the Agency has successfully issued bonds structured as monthly principal pass-through payments from an identified portfolio of GNMA Securities and Fannie Mae Securities to fund current single family mortgage production.

At the same time, both the government and private lending institutions have undertaken programs to assist borrowers in refinancing their outstanding mortgage loans. On March 6, 2012, for example, the Obama Administration announced a new streamlined refinancing plan in which the Federal Housing Administration, effective June 11, 2012, reduced its upfront and annual mortgage insurance premiums for refinancings of FHA-insured loans originated before June 1, 2009 and on which the borrower is current. The upfront premium dropped from 1.00% to 0.01% of the loan amount and the annual premium dropped from 1.15% to 0.55%. The implementation of this plan may cause prepayments of FHA-insured loans in the Agency portfolio to increase.

These measures, and additional measures and legislation that may be considered by the federal government or the Minnesota Legislature, may affect the Program, the Program Loans, the Program Securities or the Bonds. While some of these measures may benefit the Program, no assurance can be given that the Program, the Bonds, the Program Securities or the Program Loans or the Owners of such Bonds will not be adversely affected by such measures. In addition, because of market conditions, no assurance can be given that the Agency will issue Additional Bonds under the Bond Resolution.

THE REPLACEMENT LIQUIDITY FACILITY

The information under this caption replaces the information contained in Appendix I to the Original Official Statement, which describes the Initial Liquidity Facility.

General

The following description is a summary of certain provisions of the Replacement Liquidity Facility. Such summary does not purport to be a complete description or restatement of the material provisions of the Replacement Liquidity Facility. Investors should obtain and review a copy of the Replacement Liquidity Facility in order to understand all of the terms of that document.

The Replacement Liquidity Facility provides that, subject to the terms and conditions set forth in such Replacement Liquidity Facility, the Replacement Liquidity Provider shall purchase Eligible Bonds (as defined in the Replacement Liquidity Facility) tendered or deemed tendered from time to time pursuant to an optional or mandatory tender by owners thereof in accordance with the terms of the Resolution, in each case, to the extent such Eligible Bonds are not remarketed by the Remarketing Agent. The Replacement Liquidity Facility will expire on March 12, 2015 (the "Expiration Date"), unless extended or terminated pursuant to its terms.

Under certain circumstances described below, the obligation of the Replacement Liquidity Provider to purchase Eligible Bonds tendered or deemed tendered by the owners thereof pursuant to an optional or mandatory tender may be immediately suspended or terminated without notice to the Bondowners (as defined in the Replacement Liquidity Facility). In such event, sufficient funds may not be available to purchase Eligible Bonds tendered or deemed tendered by the owners thereof pursuant to an optional or mandatory tender. In addition, the Replacement Liquidity Facility does not provide support or security for the payment of principal of, premium, if any, or interest on the Eligible Bonds.

Purchase of Tendered Eligible Bonds by the Replacement Liquidity Provider

The Replacement Liquidity Provider will purchase from time to time during the period prior to the Expiration Date or earlier termination of the Replacement Liquidity Facility, Eligible Bonds tendered or deemed tendered from time to time during the period from and including March 13, 2013, to and including the Expiration Date (unless earlier terminated pursuant to the terms of the Replacement Liquidity Facility) pursuant to an optional or mandatory tender by owners thereof in accordance with the terms and provisions of the Resolution, in each case, to the extent the Eligible Bonds are not remarketed in accordance with the terms and provisions of the Remarketing Agreement (as defined in the Replacement Liquidity Facility). The price to be paid by the Replacement Liquidity Provider for the Eligible Bonds will be equal to the aggregate principal amount of the Eligible Bonds, provided that the aggregate principal amount of such Eligible Bonds so purchased shall not exceed the Available Principal Commitment (as defined in the Replacement Liquidity Facility), plus the lesser of (i) the Available Interest Commitment (as defined in the Replacement Liquidity Facility) and (ii) interest accrued thereon to but excluding the date of such purchase.

Events of Default

The following events, among others, constitute Events of Default under the Replacement Liquidity Facility. Reference is made to the Replacement Liquidity Facility for a complete listing of all Events of Default.

Events of Default not Permitting Immediate Termination or Suspension

(a) *Payments*. (i) Any principal of, premium, if any, or interest on any Revenues Secured Debt (as defined in the Replacement Liquidity Facility) (other than Parity Debt (as defined in the Replacement Liquidity Facility)), shall not be paid when due (whether by scheduled maturity, required prepayment or purchase, acceleration, demand or otherwise), (ii) the occurrence of any event under any resolution, instrument or agreement giving rise to, relating to or with respect to any such Revenues Secured Debt, which results in or would entitle the obligee thereof or a trustee on behalf of such obligee to require such Revenues Secured Debt to be paid, prepaid or redeemed prior to the maturity thereof, or upon the lapse of time or the giving of notice or both would entitle the obligee thereof or a trustee on behalf of such obligee to require such Revenues Secured Debt to be paid, prepaid or redeemed prior to the maturity thereof, or which results in the forfeiture by the Agency of any of its rights under any such resolution, instrument or agreement, or (iii) the Agency shall fail to pay any Obligation (as defined in the Replacement Liquidity Facility) or any other amount payable under the Replacement Liquidity Facility or the Fee Agreement (as defined in the Replacement Liquidity Facility) (other than those described in paragraph (b) below under the subcaption "**Events of Default Permitting Immediate Termination or Suspension**") when due and such failure shall continue for five (5) Business Days (as defined in the Replacement Liquidity Facility).

(b) *Representations*. Any representation or warranty made by or on behalf of the Agency in the Replacement Liquidity Facility (or incorporated therein by reference) or in any Related Document (as defined in the Replacement Liquidity Facility) or in any certificate or statement delivered thereunder shall prove to have been incorrect, incomplete or misleading in any material respect when made or deemed to have been made.

(c) *Other Covenants*. The Agency shall fail to perform or observe (i) specified covenants under the Replacement Liquidity Facility; or (ii) any other term, covenant or agreement contained in any other Section of the Replacement Liquidity Facility (other than such specified covenants described in clause (i) of this paragraph (c)) or any Related Document on its part to be performed or observed, which failure under such other Section or Related Document continues for thirty (30) days or more.

(d) *Ratings Downgrade*. The long-term rating by Moody's or S&P of the 2006 Series C Bonds or any other Revenues Secured Debt (without regard to third party credit enhancement) is suspended, withdrawn or reduced below "Baa1" (or its equivalent) or "BBB+" (or its equivalent), respectively.

(e) *Other Documents*. Any "event of default" under, and as defined in, the Resolution or any other Related Document shall occur.

(f) *Internal Revenue Service*. A ruling, assessment, notice of deficiency or technical advice by the Internal Revenue Service shall be rendered to the effect that interest on the 2006 Series C Bonds is includable in the gross income of the holder(s) or owner(s) of such 2006 Series C Bonds and either (i) the Agency, after it has been notified by the Internal Revenue Service, shall not challenge such ruling, assessment, notice or advice in a court of law during the period within which such challenge is permitted or (ii) the Agency shall challenge such ruling, assessment, notice or advice and a court of law shall make a determination, not subject to appeal or review by another court of law, that such ruling, assessment, notice or advice is correctly rendered.

(g) *Invalidity or Contest of Validity*. Subject to the Replacement Liquidity Facility, (i) the Replacement Liquidity Facility, any other Related Document or any provision hereof or thereof shall at any time for any reason cease to be valid and binding on the Agency or shall be declared in a final, non-appealable judgment by any court of competent jurisdiction to be null and void, invalid or unenforceable or (ii) the Agency, the State or any other Governmental Authority with appropriate jurisdiction shall contest the validity or enforceability of the Agency's obligations hereunder or under the other Related Documents or deny that the Agency has any further liability or obligation hereunder or under the other Related Documents.

Events of Default Permitting Immediate Termination or Suspension

(a) *Event of Insolvency.* An Event of Insolvency (as defined in the Replacement Liquidity Facility) with respect to the Agency shall have occurred.

(b) *Payment Default.* Failure by the Agency, wholly or partially, to make timely any payment of principal or interest required to be made on the 2006 Series C Bonds (including any Bank Bond (as defined in the Replacement Liquidity Facility), other than with respect to an acceleration of the principal of and interest on Bank Bonds in accordance with the paragraph (e) below under the caption "Remedies").

(c) *Parity Debt.* (i) The Agency shall fail to pay when due (whether by scheduled maturity, required prepayment, acceleration or otherwise) any Parity Debt (other than a failure to pay any amount described in clause (v) of the definition of "Debt" in the Replacement Liquidity Facility which has been accelerated pursuant to the terms of the applicable agreement), or any interest or premium thereon, and such failure shall continue beyond any applicable grace period specified in any resolution, indenture, agreement, contract or instrument related to such Parity Debt or pursuant to which such Parity Debt has been issued, or (ii) pursuant to the provisions of any such resolution, indenture, agreement, contract or instrument the maturity of any Parity Debt, as a result of a payment default, shall have been accelerated or may be required to be prepaid prior to the stated maturity thereof.

(d) *Contest of Validity.* Subject to the Replacement Liquidity Facility, (i) any provision of the Replacement Liquidity Facility, the Fee Agreement, the Resolution, the Act (as defined in the Replacement Liquidity Facility) or the 2006 Series C Bonds relating to (x) the payment of the principal of or interest on the 2006 Series C Bonds or the Bank Bonds or (y) the pledge of and lien on the Revenues, shall at any time for any reason cease to be valid and binding pursuant to a judgment or order of any court of competent jurisdiction or other Governmental Authority on the Agency, or any amendment to the Act or any other statute is enacted, whether by referendum, initiative or by act of the state legislature, the effect of which is to materially adversely affect the enforceability of any provision of the Replacement Liquidity Facility, the Fee Agreement, the Resolution or the 2006 Series C Bonds relating to the payment of principal or interest on the 2006 Series C Bonds or the Bank Bonds or any of such documents in its entirety, or (ii) any officer or employee of the Agency shall publicly repudiate or contest the validity or enforceability of (A) any of the Replacement Liquidity Facility, the Fee Agreement, the Resolution or the 2006 Series C Bonds, in each case, in its entirety, or (B) any provision of the Replacement Liquidity Facility, the Fee Agreement, the Resolution or the 2006 Series C Bonds relating to the pledge of or lien on the Revenues, or the Agency's ability or obligation to pay the principal of or interest on the 2006 Series C Bonds or the Bank Bonds or (iii) the Agency shall repudiate that it has any or further liability or obligation under the Replacement Liquidity Facility, the 2006 Series C Bonds or the Resolution.

(e) *Investment Grade Rating*. The unenhanced rating of the 2006 Series C Bonds or any other Revenues Secured Debt shall be (i) withdrawn or suspended for credit-related reasons or reduced below "Baa3" by Moody's and (ii) withdrawn or suspended for credit-related reasons or reduced below "BBB-" by S&P.

(f) *Judgments*. A final, nonappealable judgment or order for the payment of money which in the aggregate is in excess of $5,000,000 shall be rendered by a court of competent jurisdiction against the Agency or attaches to the Trust Estate (as defined in the Replacement Liquidity Facility) and such judgment(s) or order(s) shall continue unsatisfied and unstayed for a period of sixty (60) days.

Remedies

The following are remedies available to the Replacement Liquidity Provider under the Replacement Liquidity Facility upon the occurrence of certain events of default thereunder:

(a) In the case of any Event of Default specified under the subcaption "**Events of Default Permitting Immediate Termination or Suspension**" above (each an *"Immediate Termination Event"*), the Available Commitment (as defined in the Replacement Liquidity Facility) shall immediately be reduced to zero, in which case the obligations of the Replacement Liquidity Provider to purchase Eligible Bonds shall immediately terminate without notice or demand and, thereafter, the Replacement Liquidity Provider shall be under no obligation to purchase Eligible Bonds. Promptly upon such Event of Default, the Replacement Liquidity Provider shall give written notice of same to the Trustee, the Agency and the Remarketing Agent; *provided,* that the Replacement Liquidity Provider shall incur no liability or responsibility whatsoever by reason of its failure to give such notice, and such failure shall in no way effect the termination of the Available Commitment and of the obligations of the Replacement Liquidity Provider to purchase Eligible Bonds pursuant to the Replacement Liquidity Facility. The Trustee shall immediately notify all Bondowners of the termination of the Available Commitment and the obligation of the Replacement Liquidity Provider to purchase the Eligible Bonds.

(b) In the case of a Default (as defined in the Replacement Liquidity Facility) specified in clause (ii) of paragraph (d) under the subcaption "**Events of Default Permitting Immediate Termination or Suspension**" above (following the entry of a judgment subject to further proceedings and prior to the entry of a final, non appealable judgment) (an *"Immediate Suspension Event"*), the Replacement Liquidity Provider's obligation to purchase Eligible Bonds shall be immediately suspended without notice or demand and thereafter the Replacement Liquidity Provider shall be under no obligation to purchase Eligible Bonds until such obligation is reinstated pursuant to this paragraph (b). Promptly upon the Replacement Liquidity Provider obtaining knowledge of any such Immediate Suspension Event, the Replacement Liquidity Provider shall give written notice to the Agency, the Paying Agent, the Trustee and the Remarketing Agent of such suspension; *provided* that the Replacement Liquidity Provider shall incur no liability or responsibility whatsoever by reason of its failure to give such notice and such failure shall in no way affect the suspension of the Replacement Liquidity Provider's obligation to purchase Eligible Bonds. If a court with jurisdiction to rule on the validity of the provisions described in clause (ii) of paragraph (d) under the subcaption "**Events of Default Permitting Immediate Termination or Suspension**" above shall enter a final, non appealable judgment that any such provision is not valid and binding on the Agency, then the Purchase Period, the Available Commitment and the Replacement Liquidity Provider's obligation to purchase Eligible Bonds shall immediately terminate. If a court with jurisdiction to rule on the validity of the provisions described in clause (ii) of paragraph (d) under the subcaption "**Events of Default Permitting Immediate Termination or Suspension**" above shall thereafter find or rule that such provisions are valid and binding on the Agency, the Replacement Liquidity Provider's obligation to purchase Eligible Bonds under the Replacement Liquidity Facility shall be automatically reinstated and the terms of the Replacement Liquidity Facility will continue in full force and effect (unless the obligation of the Replacement Liquidity Provider to purchase Eligible Bonds thereunder shall otherwise have terminated or been suspended as provided in the Replacement Liquidity Facility). Notwithstanding the foregoing, if, upon the earlier of the expiration of the Purchase Period and the date which is two (2) years after the effective date of suspension of the Replacement Liquidity Provider's obligation pursuant to this paragraph (b), litigation is still pending and a judgment regarding the validity of the provisions described in clause (ii) of paragraph (d) under the subcaption "**Events of Default Permitting Immediate Termination or Suspension**" above that are the cause of such Immediate Suspension Event has not been obtained, then the Available Commitment, the Purchase Period and the obligation of the Replacement Liquidity Provider to purchase Eligible Bonds shall at such time immediately terminate and thereafter the Replacement Liquidity Provider shall be under no obligation to purchase Eligible Bonds.

(c) In the case of any Event of Default the Replacement Liquidity Provider may give written notice in the form of Exhibit B to the Replacement Liquidity Facility of such Event of Default to the Agency, the Trustee and Remarketing Agent stating that an Event of Default has occurred thereunder and directing that the 2006 Series C Bonds be called for mandatory tender pursuant to the applicable section of the Series Resolution (a *"Default Tender"*). The Available Commitment, the Purchase Period (as defined in the Replacement Liquidity Facility) and the obligation of the Replacement Liquidity Provider to purchase Eligible Bonds shall terminate five (5) Business Days following such Default Tender, and, thereafter, the Replacement Liquidity Provider shall be under no further obligation thereunder to purchase Eligible Bonds.

(d) Upon the occurrence of any Event of Default as specified in any provision under the caption "Events of Default" above, the Replacement Liquidity Provider may take any other action or remedies available to it under the Replacement Liquidity Facility, the Related Documents or otherwise pursuant to law or equity in order to enforce the rights of the Replacement Liquidity Provider thereunder, under the Related Documents or otherwise. Following any such Event of Default (i) all amounts owed to the Replacement Liquidity Provider thereunder and with respect to any Bank Bonds shall bear interest at the Default Rate (as defined in the Replacement Liquidity Facility) until paid, (ii) the Replacement Liquidity Provider may by written notice to the Agency declare that all amounts owed to the Replacement Liquidity Provider thereunder and with respect to the Bank Bonds be immediately due and payable such amounts shall be immediately due and payable and the Bank Bonds shall be subject to immediate mandatory tender (*provided* that the obligations of the Agency thereunder and under the Bank Bonds shall become immediately due and payable without such notice upon the occurrence of an Event of Default described in paragraph (a) above under the subcaption "**Events of Default Permitting Immediate Termination or Suspension**"), and (iii) the Replacement Liquidity Provider shall have all remedies provided at law or equity, including, without limitation, the right to set-off and specific performance. The Replacement Liquidity Provider shall promptly provide the Trustee and the Agency of any acceleration of the amounts due thereunder or under the Bank Bonds.

(e) *Remedies Non-exclusive*. The remedies provided under the caption "Remedies" above shall only be exclusive with respect to Events of Default to the extent described under the caption "Remedies" above and to the extent they are obtained by the Replacement Liquidity Provider. If, for any reason whatsoever, the Replacement Liquidity Provider is not able to obtain all such remedies, then the Replacement Liquidity Provider thereby reserves the right and shall have the right to pursue any other available remedies, whether provided by law, equity, or any Related Document

Notwithstanding the provisions of paragraph (a) under the caption "Remedies" above, if, upon the occurrence of an Event of Default under the subcaption "**Events of Default not Permitting Immediate Termination or Suspension**," the Replacement Liquidity Provider exercises its rights under paragraph (d) under the caption "Remedies" above or under the Replacement Liquidity Facility to declare the amounts owed thereunder, under the Fee Agreement and under the Bank Bonds to be immediately due and payable or to have the Bank Bonds become subject to immediate mandatory redemption, the failure by the Agency to pay such accelerated amounts shall not, by itself, permit the immediate termination of the Available Commitment, the Purchase Period or the Replacement Liquidity Provider's obligation to purchase Eligible Bonds pursuant to paragraph (a) under the caption "Remedies" above).

THE REPLACEMENT LIQUIDITY PROVIDER

The following information replaces the information contained in Appendix J to the Original Official Statement, which described the initial Liquidity Facility provider.

The information under this heading has been provided solely by the Replacement Liquidity Provider and is believed to be reliable. This information has not been verified independently by the Agency or the Remarketing Agent. The Agency and the Remarketing Agent make no representation whatsoever as to the accuracy, adequacy or completeness of such information.

Wells Fargo Bank, National Association

The Replacement Liquidity Provider is a national banking association organized under the laws of the United States of America with its main office at 101 North Phillips Avenue, Sioux Falls, South Dakota 57104, and engages in retail, commercial and corporate banking, real estate lending and trust and investment services. The Replacement Liquidity Provider is an indirect, wholly-owned subsidiary of Wells Fargo & Company ("Wells Fargo"), a diversified financial services company, a financial holding company and a bank holding company registered under the Bank Holding Company Act of 1956, as amended, with its principal executive offices located in San Francisco, California ("Wells Fargo").

The Replacement Liquidity Provider prepares and files Call Reports on a quarterly basis. Each Call Report consists of a balance sheet as of the report date, an income statement for the year-to-date period to which the report relates and supporting schedules. The Call Reports are prepared in accordance with regulatory instructions issued by the Federal Financial Institutions Examination Council. While the Call Reports are supervisory and regulatory documents, not primarily accounting documents, and do not provide a complete range of financial disclosure about the Replacement Liquidity Provider, the reports nevertheless provide important information concerning the Replacement Liquidity Provider's financial condition and results of operations. The Replacement Liquidity Provider's Call Reports are on file with, and are publicly available upon written request to the FDIC, 550 17th Street, N.W., Washington, D.C. 20429, Attention: Division of Insurance and Research. The FDIC also maintains an internet website that contains the Call Reports. The address of the FDIC's website is http://www.fdic.gov. The Replacement Liquidity Provider's Call Reports are also available upon written request to the Wells Fargo Corporate Secretary's Office, Wells Fargo Center, MAC N9305-173, 90 South 7th Street, Minneapolis, MN 55479.

The Replacement Liquidity Facility will be solely an obligation of the Replacement Liquidity Provider and will not be an obligation of, or otherwise guaranteed by, Wells Fargo & Company, and no assets of Wells Fargo & Company or any affiliate of the Replacement Liquidity Provider or Wells Fargo & Company will be pledged to the payment thereof. Payment of the Replacement Liquidity Facility will not be insured by the FDIC.

References to web site addresses presented in this section are for informational purposes only and may be the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such web sites and the information or links contained therein are not incorporated into, and are not a part of, this Supplement for purposes of, and as that term is defined in, SEC Rule 15c2-12.

The information contained in this section, including financial information, relates to and has been obtained from the Replacement Liquidity Provider, and is furnished solely to provide limited introductory information regarding the Replacement Liquidity Provider and does not purport to be comprehensive. Any financial information provided in this section is qualified in its entirety by the detailed information appearing in the Call Reports referenced above. The delivery hereof shall not create any implication that there has been no change in the affairs of the Replacement Liquidity Provider since the date of this Supplement.

TENDER AND REMARKETING OF 2006 SERIES C BONDS

The following information supplements and modifies, to the extent inconsistent therewith, the information in the Original Official Statement under the heading "Description of the Series Bonds—Optional and Mandatory Tender of Certain 2006 Series C Bonds."

Optional and Mandatory Tender of 2006 Series C Bonds

Optional Tender. Owners of 2006 Series C Bonds in the Weekly Mode may elect to tender their 2006 Series C Bonds for purchase, by providing notice to the Remarketing Agent and the Tender Agent not later than 5:00 p.m. (New York City time) on any Business Day that is at least seven calendar days before the purchase date, which must be a Business Day and must be set forth in the notice. Such 2006 Series C Bonds are to be purchased on the purchase date specified in the notice at a price equal to 100% of the principal amount thereof plus accrued interest to but not including the purchase date (the "Purchase Price"). The notice of optional tender for purchase of 2006 Series C Bonds by the Owners or beneficial owners thereof shall be irrevocable once such notice is given to the Remarketing Agent and the Tender Agent.

Mandatory Tender. The 2006 Series C Bonds or any portion thereof are subject to mandatory tender for purchase (with no right to retain) at the Purchase Price (i) on any Mode Change Date and each Unenhanced Variable Rate Change Date for such Bonds, (ii) upon scheduled expiration or termination by the Agency of the Initial Liquidity Facility or an Alternate Liquidity Facility (a "Liquidity Expiration Event") for such Bonds, on a date not less than five days prior to the scheduled expiration or earlier termination of the Liquidity Facility, (iii) on any Conversion Date for such Bonds, and (iv) upon receipt of a Notice of Termination (as described in any Liquidity Facility) by the Trustee following the occurrence of certain Events of Default under such Liquidity Facility, on a date not less than five days prior to the date on which the Liquidity Facility will terminate (each a "Mandatory Tender Date"). Upon any such event, the Trustee is to deliver a notice of mandatory tender to Bondowners, at least 15 days prior to the Mandatory Tender Date, stating the reason for the mandatory tender, the date of mandatory tender, and that all Bondowners of 2006 Series C Bonds subject to such mandatory tender are deemed to have tendered their 2006 Series C Bonds upon such date.

This paragraph is applicable to the 2006 Series C Bonds only if the book-entry-only system has been discontinued and replacement bonds have been issued. Any 2006 Series C Bonds not tendered and delivered to the Tender Agent on or prior to its Mandatory Tender Date for which there have been irrevocably deposited in trust with the Trustee the Purchase Price will be deemed to have been tendered and purchased on such Mandatory Tender Date. Bondowners will not be entitled to any payment (including any interest to accrue on or after the Mandatory Tender Date) other than the principal amount of such 2006 Series C Bonds, plus accrued interest to the day preceding the Mandatory Tender Date, and said Bondowners will no longer be entitled to the benefits of the Resolutions, except for the purpose of payment of the Purchase Price. Replacement 2006 Series C Bonds will be issued in place of such untendered 2006 Series C Bonds pursuant to the 2006 Series C Resolution, and, after the issuance of the replacement 2006 Series C Bonds, such untendered 2006 Series C Bonds will be deemed purchased, canceled, and no longer Outstanding under the Resolutions.

Remarketing of 2006 Series C Bonds

General. On each date on which 2006 Series C Bonds are required to be purchased, the Remarketing Agent is to use its best efforts to sell such 2006 Series C Bonds at a Weekly Rate (or, in the case of purchase upon a Mode Change, an interest rate corresponding to the appropriate mode) that results as nearly as practicable in the price being 100% of the principal amount thereof. In the event the Remarketing Agent is unable to remarket the 2006 Series C Bonds so tendered while the Replacement Liquidity Facility is in effect, the Replacement Liquidity Provider has agreed to purchase such 2006 Series C Bonds in accordance with the Replacement Liquidity Facility. The Remarketing Agent is not required to remarket the 2006 Series C Bonds (i) after the occurrence of an Event of Default under the Resolution; (ii) after the occurrence of a Termination Event under the Replacement Liquidity Facility and the Replacement Liquidity Provider's termination of its commitment to purchase 2006 Series C Bonds thereunder; (iii) during a Suspension Event under the Replacement Liquidity Facility and the Replacement Liquidity Provider's suspension of its commitment to purchase the 2006 Series C Bonds thereunder (unless there is reinstatement of the Replacement Liquidity Facility; provided that if no reinstatement occurs within specific time periods, termination will occur without mandatory tender); or (iv) if the Replacement Liquidity Provider breaches its obligation to purchase 2006 Series C Bonds tendered and not remarketed. The Agency will enter into a Remarketing Agreement with the Remarketing Agent pursuant to which the Remarketing Agent will undertake the duties of Remarketing Agent in the 2006C Series Resolution, including remarketing of tendered 2006 Series C Bonds and determination of interest rates. The Remarketing Agreement provides that the Remarketing Agent may suspend its activities under certain circumstances, that the Remarketing Agent may resign its duties by giving 30 days' written notice to the Agency, and that the Agency may remove the Remarketing Agent upon 30 days' written notice.

Remarketing Agent Is Paid by the Agency. The Remarketing Agent's responsibilities include determining the interest rate from time to time and using best efforts to remarket the 2006 Series C Bonds that are optionally or mandatorily tendered by the Owners thereof (subject, in each case, to the terms of the 2006C Series Resolution and the Remarketing Agreement, as applicable), all as further described in the Official Statement. The Remarketing Agent is appointed by the Agency and is paid by the Agency for its services (including a fee of $5,596.25 for the initial remarketing of the 2006 Series C Bonds on March 13, 2013). As a result, the interests of the Remarketing Agent may differ from those of Owners and potential purchasers of 2006 Series C Bonds.

Remarketing Agent Routinely Purchases Bonds for Its Own Account. The Remarketing Agent acts as remarketing agent for a variety of variable rate demand obligations and, in its sole discretion, routinely purchases such obligations for its own account. The Remarketing Agent is permitted, but not obligated, to purchase tendered

2006 Series C Bonds for its own account and, in its sole discretion, may acquire such tendered 2006 Series C Bonds in order to achieve a successful remarketing of the 2006 Series C Bonds (i.e., because there otherwise are not enough buyers to purchase the 2006 Series C Bonds) or for other reasons. However, the Remarketing Agent is not obligated to purchase 2006 Series C Bonds, and may cease doing so at any time without notice. The Remarketing Agent may also make a market in the 2006 Series C Bonds by routinely purchasing and selling 2006 Series C Bonds other than in connection with an optional or mandatory tender and remarketing. Such purchases and sales may be at or below the principal amount thereof. However, the Remarketing Agent is not required to make a market in the 2006 Series C Bonds. The purchase of 2006 Series C Bonds by the Remarketing Agent may create the appearance that there is greater third party demand for the 2006 Series C Bonds in the market than is actually the case. The Remarketing Agent may also sell any 2006 Series C Bonds it has purchased to one or more affiliated investment vehicles for collective ownership or enter into derivative arrangements with affiliates or others in order to reduce its exposure to the 2006 Series C Bonds. The purchase of 2006 Series C Bonds by the Remarketing Agent may create the appearance that there is greater third party demand for the 2006 Series C Bonds in the market that is actually the case. The practices described above also may result in fewer 2006 Series C Bonds being tendered for purchase pursuant to the 2006C Series Resolution.

2006 Series C Bonds May Be Offered at Different Prices on Any Date, Including a Rate Determination Date. Pursuant to the 2006C Series Resolution and the Remarketing Agreement, the Remarketing Agent is required to determine the applicable rate of interest that, in the determination of the Remarketing Agent, would result as nearly as practicable in the market value of the 2006 Series C Bonds on the Effective Rate Date (without taking into account accrued interest thereon) being 100% of the principal amount thereof. The interest rate will reflect, among other factors, the level of market demand for the 2006 Series C Bonds (including whether the Remarketing Agent is willing to purchase 2006 Series C Bonds for its own account). There may or may not be 2006 Series C Bonds tendered and remarketed on a Rate Determination Date, the Remarketing Agent may or may not be able to remarket any 2006 Series C Bonds tendered for purchase on such date at the principal amount thereof and the Remarketing Agent may sell 2006 Series C Bonds at varying prices to different investors on such date or any other date. The Remarketing Agent is not obligated to advise purchasers in a remarketing if it does not have third party buyers for all of the 2006 Series C Bonds at the remarketing price. In the event the Remarketing Agent owns any 2006 Series C Bonds for its own account, it may, in its sole discretion in a secondary market transaction outside the tender process, offer such 2006 Series C Bonds on any date, including the Rate Determination Date, at a discount to the principal amount thereof to some investors.

Ability To Sell the 2006 Series C Bonds Other Than Through Tender Process May Be Limited. The Remarketing Agent may buy and sell 2006 Series C Bonds other than through the tender process. However, it is not obligated to do so and may cease doing so at any time without notice and may require Owners that wish to tender their 2006 Series C Bonds to do so through the Tender Agent with appropriate notice. Thus, investors who purchase the 2006 Series C Bonds, whether in a remarketing or otherwise, should not assume that they will be able to sell their 2006 Series C Bonds other than by tendering the 2006 Series C Bonds in accordance with the tender process.

Under Certain Circumstances, the Remarketing Agent May Be Removed, Resign or Cease Remarketing the 2006 Series C Bonds, Without a Successor Being Named. Under certain circumstances, the Remarketing Agent may be removed or have the ability to resign or cease its remarketing efforts, without a successor having been named, subject to the terms of the Remarketing Agreement. In the event there is no Remarketing Agent, the Trustee shall establish the applicable rate of interest on the 2006 Series C Bonds as described in the 2006C Series Resolution.

Agency Not Responsible to Bondowners for Replacement Liquidity Provider's Failure To Purchase 2006 Series C Bonds. Under the terms and provisions of the Remarketing Agreement and the Replacement Liquidity Facility, the Purchase Price of 2006 Series C Bonds is payable from moneys furnished in connection with the remarketing of the 2006 Series C Bonds or from the Replacement Liquidity Facility. Upon the occurrence of certain Termination Events or Suspension Events under the Replacement Liquidity Facility, the Replacement Liquidity Provider's obligation to purchase 2006 Series C Bonds under the Replacement Liquidity Facility will immediately terminate or may be suspended without notice or other action on the part of the Replacement Liquidity Provider. See "The Replacement Liquidity Facility" in this Supplement.) **The Agency is not responsible to Bondowners for any failure by the Replacement Liquidity Provider to purchase 2006 Series C Bonds tendered at the option of the Owner or subject to mandatory tender for purchase pursuant to the 2006C Series Resolution or upon the occurrence of a Termination Event or a Suspension Event.**

If a Termination Event or Suspension Event has occurred resulting in the termination or suspension of the Replacement Liquidity Facility or if the Replacement Liquidity Provider does not purchase any 2006 Series C Bonds tendered or deemed tendered for purchase by the owners thereof and not remarketed, such Bonds will automatically bear interest in a Weekly Mode with the interest rate reset on a weekly basis at the lesser of (i) the TBMA Index plus 1.25% or (ii) the Maximum Rate. Owners will not have the right to tender their 2006 Series C Bonds during such period and may be required to hold their 2006 Series C Bonds to maturity or prior redemption.

SECURITY FOR THE BONDS

The following information supplements and modifies, to the extent inconsistent therewith, the information in the Original Official Statement under the heading "Security for the Bonds."

Outstanding Bonds, including the 2006 Series C Bonds, are secured as provided in the Bond Resolution by a pledge of (a) all proceeds of the sale of the Bonds (other than proceeds deposited in trust for the retirement of outstanding bonds, notes or other obligations), (b) all Program Obligations and Investment Obligations made or purchased from such proceeds, (c) all Revenues, (d) any other loans, funds, securities, Cash Equivalents or other property of the Agency otherwise pledged as security for Outstanding Bonds pursuant to a Series Resolution; and (e) all money, Investment Obligations, and other assets and income held in and receivables of Funds (other than the Alternative Loan Fund, except as otherwise provided in a Series Resolution), established by or pursuant to the Bond Resolution. The Bonds, including the 2006 Series C Bonds, are also general obligations of the Agency, payable out of any of its moneys, assets or revenues, subject only to the provisions of other resolutions or indentures now or hereafter pledging and appropriating particular moneys, assets or revenues to particular notes or bonds, or State or federal laws or restrictions that particular funds be applied for a specified purpose. The pledge granted by the Bond Resolution shall be for the equal benefit, protection and security of Owners of all Outstanding Bonds, except as otherwise expressly provided therein.

The Agency has no taxing power. The State of Minnesota is not liable for the payment of the Bonds, and the Bonds are not a debt of the State.

Cash Flow Certificate

The Bond Resolution requires that the Agency file a Cash Flow Certificate with the Trustee (i) at least once within a 12-month period and as otherwise required under the Bond Resolution or a Series Resolution, (ii) upon the proposed application of funds in the Revenue Fund to acquire Program Obligations or to pay Program Expenses, if not contemplated by a prior Cash Flow Certificate, or (iii) to release funds to the Agency from the Revenue Fund or to transfer funds to the Alternative Loan Fund. The Bond Resolution also permits a revised Cash Flow Certificate to be filed at any time directed by the Agency. The Cash Flow Certificate is to give effect to the action proposed to be taken and demonstrating that in the current and in each succeeding Fiscal Year in which Bonds are scheduled to be Outstanding that Revenues and other amounts expected to be on deposit in the Funds and Accounts established under the Bond Resolution or any Series Resolution (excluding the Insurance Reserve Fund, and, except to the extent otherwise provided in a Series Resolution, the Alternative Loan Fund) will be at least equal to all amounts required to be on deposit in order to pay the Debt Service on the Bonds and to maintain the Debt Service Reserve Requirement and Insurance Reserve Requirement; provided that, to the extent specified in a Series Resolution, a Fund or Account (other than those excluded above) shall not be taken into account when preparing such Cash Flow Certificate. The Cash Flow Certificate is to set forth the assumptions upon which the estimates therein are based, which assumptions shall be based upon the Agency's reasonable expectations at the time such Cash Flow Certificate is filed. The Agency may assume in a Cash Flow Certificate that, if Bonds of a series are issued for purposes other than the Financing of Program Loans for the acquisition of owner-occupied housing, amounts to be deposited in or irrevocably appropriated to any Fund or Account established under the Bond Resolution (other than the Alternative Loan Fund, unless otherwise provided in a Series Resolution) from sources not subject to the lien of the Bond Resolution will be available in amounts and at times sufficient to pay the Debt Service on Outstanding Bonds of such series when due and to maintain the Debt Service Reserve Requirement and Insurance Reserve Requirement, if any, in respect of Outstanding Bonds of such series. As set forth more fully in "Appendix D — Summary of Certain Provisions of the Bond Resolution — Revenue Fund" in the Original Official Statement, the Agency may withdraw from the Revenue Fund funds to be released to the Agency free and clear of the lien of the Bond Resolution, for deposit in the Agency's General Reserve Account or deposit in the Alternative Loan Fund, in each case upon the filing with the Trustee a Cash Flow Certificate and a Parity Certificate.

Program Obligations

General information concerning the Agency's Residential Housing Finance Program, the types of Program Obligations that have been and are expected to be financed with the proceeds of Bonds is provided below under the heading "The Residential Housing Finance Program." Additional information regarding GNMA, Fannie Mae and Freddie Mac and Program Securities and the current Master Servicer is contained in Appendix F to this Supplement.

Modification of Terms of Program Loans

In 2008, the Bond Resolution was amended in accordance with its terms to grant the Agency the right to modify the terms of a Program Loan, including interest rate reductions, extension of loan term and principal forgiveness, on certain conditions. Specifically, the Bond Resolution provides:

The Agency may consent to the modification of the security for, or any terms or provisions of, one or more Program Loans but only if (1) the Agency reasonably determines that the modification will not be materially adverse to the security or other interests of Owners of Outstanding Bonds, and (2) the modification does not impair any contract of insurance or guaranty of the Program Loan. Any such modifications shall be reflected in the next Cash Flow Certificate which the Agency is required to prepare and provide to the Trustee pursuant to the provisions of the Bond Resolution; provided, however, that if the cumulative effect of such modifications not reflected in a Cash Flow Certificate previously delivered to the Trustee would reduce estimated Revenues from the Program Loans so modified by more than $500,000 in the current or any future Fiscal Year, then the Agency may not consent to such modifications until it has delivered a Cash Flow Certificate to the Trustee reflecting such modifications.

Investment Obligations

Bond proceeds and other funds held in the Acquisition Account, the Debt Service Reserve Fund, the Insurance Reserve Fund, the Revenue Fund, the Bond Fund, and the Redemption Fund under the Bond Resolution may be invested in Investment Obligations as defined in the Bond Resolution (see "Appendix D – Summary of Certain Provisions of the Bond Resolution – Certain Defined Terms" in the Original Official Statement).

Under the Bond Resolution, the Agency may direct the Trustee to invest funds held thereunder in investment agreements (sometimes referred to as "guaranteed investment contracts"), if such an investment agreement does not adversely affect any ratings of the Bonds at the time of execution thereof. Summary information concerning funds held in respect of Bonds under the Bond Resolution that are invested in investment agreements as of December 31, 2012, is set forth below:

Investment Agreement Providers
as of December 31, 2012
(unaudited)
($ in thousands)

Investment Agreement Provider	Acquisition Account	Debt Service Reserve Fund	Float Funds*	Total
Depfa Bank PLC	--	$10,101	$13,463	$23,564
Assured Guaranty Municipal Corp**	--	4,506	15,863	20,369
Transamerica Life Insurance Co.	--	10,308	--	10,308
Monumental Life Insurance Company	--	2,242	--	2,242
Totals	--	$27,157	$29,326	$56,483

*The amount of funds on deposit in float funds (which comprise related accounts in the Revenue Fund, the Bond Fund Interest Account, the Bond Fund Principal Account and the Bond Redemption Fund) fluctuates throughout the year as debt service is paid and Bonds are redeemed.

**Insured by Assured Guaranty Municipal Corporation. These agreements are expected to be terminated on or about March 18, 2013, following the downgrade of the rating of the insurer of the agreement.

There is no assurance that the providers of Investment Obligations held under the Bond Resolution will be able to pay principal of and interest on such Investment Obligations as provided therein. In particular, certain providers of investment agreements have recently experienced substantial financial difficulties and ratings downgrades. No representation is made as to the creditworthiness of any provider.

The failure of a provider to pay principal and interest when due under an Investment Obligation pertaining to the Acquisition Account could result in the Agency's inability to acquire Program Obligations in an amount necessary to fully secure the Bonds. A failure by a provider to pay amounts due under an Investment Obligation pertaining to the other Funds could result in the Agency's inability to pay debt service on the Bonds. Except for agreements with Depfa Bank PLC, all of Agency's investment agreements contain "downgrade" provisions giving the Agency the right to withdraw all invested funds early if the provider's credit ratings are downgraded below specified levels and remedial action is not taken by the provider. The agreements with Depfa Bank PLC permit early withdrawal only if the downgrade of the provider's credit ratings adversely affects the then current rating on the Bonds relating to such agreement and remedial action is not taken. Funds withdrawn from investment agreements under such circumstances will be invested in alternate Investment Obligations at the direction of the Agency.

Revenues

When Revenues are greater than the amount necessary to pay maturing principal of and interest on the Bonds, the excess may, to the extent permitted by applicable federal tax law, be used to make or purchase additional Program Obligations or to redeem Bonds. If Revenues are less than the amount necessary to pay maturing principal of the Bonds, then either the Agency at its option may provide the amount necessary for such payment from (a) the General Reserve Account of the Agency, (b) the Alternative Loan Fund, or (c) from any other lawful source other than funds and accounts pledged pursuant to the Bond Resolution, or the Trustee is to withdraw the necessary amount from the following funds in order of priority: (i) the Bond Redemption Fund, but only to the extent that amounts therein are in excess of amounts required for the redemption of Bonds for which the notice of redemption has been given, (ii) the Revenue Fund, (iii) the Debt Service Reserve Fund, and (iv) the Insurance Reserve Fund.

Debt Service Reserve Fund

The Bond Resolution creates and establishes a Debt Service Reserve Fund and provides that the Debt Service Reserve Requirement as of any date shall be the sum of amounts established for each Series of Bonds by each Series Resolution. The aggregate Debt Service Reserve Requirement with respect to the Series Bonds is equal, as of the date of calculation, to three percent (3%) of the aggregate principal amount of the then Outstanding Series Bonds. The balance in the Debt Service Reserve Fund on December 31, 2012, was $41,807,392, which was at least equal to the Debt Service Reserve Requirement for all Series of Bonds then Outstanding.

The Act provides that the Agency may create and establish one or more debt service reserve funds for the security of its bonds. The moneys held in or credited to a debt service reserve fund are to be used solely for the payment of principal of bonds of the Agency as the same mature, the purchase of such bonds, the payment of interest thereon or the payment of any premium required when such bonds are redeemed before maturity, provided that the moneys in such fund are not to be withdrawn therefrom at any time in such amount as would reduce the amount reasonably necessary for the purposes of the fund, except for the purpose of paying principal and interest due on the bonds secured by the fund for the payment of which other moneys of the Agency are not available. The Agency is not to issue any additional bonds or notes which are secured by a debt service reserve fund if the amount in that debt service reserve fund or any other debt service reserve fund at the time of such issuance does not equal or exceed the minimum amount required by the resolution creating such fund unless the Agency deposits in each such fund at the time of such issuance from the proceeds of the bonds or otherwise an amount which, together with the amount then in the fund, will be no less than the minimum amount so required. The Act further provides that:

> In order to assure the payment of principal and interest on bonds and notes of the agency and the continued maintenance of all debt service reserve funds created and established therefor, the agency shall annually determine and certify to the governor, on or before December 1, (a) the amount, if any, then needed to restore each debt service reserve fund to the minimum amount required by the resolution or indenture establishing the fund, not exceeding the maximum amount of principal and interest to become due and payable in any subsequent year on all bonds or notes which are then outstanding and secured by such fund; and (b) the amount, if any, determined by the agency to be needed in the then immediately ensuing fiscal year, with other funds pledged and estimated to be received during that year, for the payment of the principal and interest due and payable in that year on all then outstanding bonds and notes secured by a debt service reserve fund

> the amount of which is then less than the minimum amount agreed. The governor shall include and submit to the legislature, in the budget for the following fiscal year, or in a supplemental budget if the regular budget for that year has previously been approved, the amounts certified by the agency ….

In the opinion of Bond Counsel and counsel to the Agency, under current law the State Legislature is legally authorized *but is not legally obligated* to appropriate such amounts.

Insurance Reserve Fund

The Bond Resolution creates and establishes an Insurance Reserve Fund to be used for the purpose of paying that portion of the claim for loss with respect to any defaulted Program Obligation which is not paid by a public or private insuring agency. As of any particular date of calculation, the Insurance Reserve Requirement is the sum of amounts, if any, established for each Series of Bonds by the applicable Series Resolution. Currently, there is no balance in the Insurance Reserve Fund, as there is no Insurance Reserve Requirement for any Series of Bonds Outstanding.

Additional Bonds

The Bond Resolution permits the issuance of additional Bonds, upon the adoption of a Series Resolution, without limitation as to amount, to provide funds for the purpose of financing Program Obligations and, in addition, to refund outstanding Bonds or other obligations of the Agency. No additional Series of Bonds may be issued except upon receipt by the Trustee of (i) an Agency Certificate (in which the Agency may make certain assumptions permitted in a Cash Flow Certificate) certifying (a) that an amount equal to the Debt Service Reserve Requirement effective upon issuance of such Bonds will be on deposit in the Debt Service Reserve Fund and an amount equal to the Insurance Reserve Requirement effective upon issuance of such Bonds will be on deposit in the Insurance Reserve Fund, and (b) that estimated Revenues are in excess of required fund transfers and debt service on the Bonds in each Fiscal Year, and (ii) written confirmation that the then existing ratings of the Bonds will not be impaired. A Cash Flow Certificate need not be filed in connection with the issuance of additional Bonds unless the Series Resolution authorizing Bonds of the series so provides.

Any additional Bonds issued under the Bond Resolution will be on parity with the 2006 Series C Bonds and all other Outstanding Bonds and will be entitled to the equal benefit, protection and security of the provisions, covenants and agreements in the Bond Resolution, except as otherwise expressly provided therein.

State Pledge Against Impairment of Contracts

The State in the Act has pledged to and agreed with the Bondowners that it will not limit or alter the rights vested in the Agency to fulfill the terms of any agreements made with them or in any way impair the rights and remedies of the Bondowners until the Bonds, together with the interest thereon and on any unpaid installments of interest, and all costs and expenses in connection with any action or proceeding by or on behalf of such Bondowners, are fully met and discharged.

THE RESIDENTIAL HOUSING FINANCE PROGRAM

The following information supplements and modifies, to the extent inconsistent therewith, the information in the Original Official Statement under the headings "The Residential Housing Finance Program" and "Program Loans To Be Made from Series Bonds."

General

Under the Bond Resolution, the Agency may issue Bonds to finance Program Obligations in order to provide financing for housing for low and moderate income persons, including single family loans, home improvement loans, multifamily loans and other housing-related loans, and to secure such loans in such manner as the Agency determines, which would include first mortgage loans, subordinate mortgage loans or loans which are unsecured. All Outstanding Bonds issued under the Bond Resolution are secured on a parity, except as otherwise expressly provided in the Bond Resolution.

History and Transition to "MBS" Model

The Agency's Program formerly provided funds for the purchase by the Agency of newly originated Program Loans at a price and bearing interest at rates established from time to time on the basis of the interest cost of the Bonds and local mortgage market conditions. Such were the Program Loans financed with proceeds of the Series Bonds as further described under the heading "Program Loans To Be Made from Series Bonds" in the Original Official Statement. Except with respect to Home Improvement Program Loans, Program Loans purchased by the Agency historically have had 30-year terms. In 2006, however, the Agency implemented a program to offer Program Loans with 40-year terms under its CASA Program (as hereinafter defined, see "Special Assistance Programs"). The Agency terminated the 40-year loan program in October 2008. Historically, the Agency has purchased Program Loans on terms resulting in an effective rate sufficient to pay the principal of and interest on the related Series of Bonds, the costs of servicing the Program Loans and other Program Expenses. The Agency may require the payment of discount points to reduce the overall interest rate on the Program Loans, provide adequate compensation to Lenders and defray Agency operation costs and expenses.

Effective for commitments made on or after September 1, 2009, the Agency changed the Program from a "whole loan" model to an "MBS" (mortgage-backed securities) model, in which the Agency acquires mortgage-backed securities guaranteed as to timely payment of principal and interest by the Government National Mortgage Association ("GNMA"), the Federal National Mortgage Association ("Fannie Mae") or the Federal Home Loan Mortgage Corporation ("Freddie Mac") (as defined in the Resolutions, "Program Securities") instead of directly acquiring mortgage loans from lenders. The Agency has entered into a Servicing Agreement, dated as of July 9, 2009 (the "Servicing Agreement"), with the Trustee and U.S. Bank National Association, as master servicer (the "Master Servicer"), for a term ending August 31, 2013 (subject to renewal and termination rights). Pursuant to the Servicing Agreement, the Master Servicer is to acquire single family mortgage loans meeting Program requirements and pool such Program Loans into Program Securities to be purchased by the Trustee on behalf of the Agency. For additional information regarding the Master Servicer, see Appendix F to this Supplement.

Recent Program Developments

The Agency implemented changes effective December 18, 2012 to its first mortgage and down payment and closing cost assistance programs. The Agency streamlined its single-family first mortgage program by combining its Minnesota Mortgage Program and its Community Activity Set Aside Program under the new name Start Up. The Agency retained modified versions of its two down payment and closing cost assistance programs, which provide assistance through interest-free and deferred repayment loans to lower-income borrowers, and it added a third option, an interest-bearing, fully-amortizing down payment and closing cost assistance loan, which is available to most Start Up borrowers, as further described below under the caption "Other Programs."

Procedures for Origination, Purchase and Pooling

Application

The Agency has published, and revises from time to time, its Start Up Program Procedural Manual (the "Manual") which sets forth the guidelines and procedures for participation in the Program and certain requirements for origination of mortgage loans, including provisions for compliance with the requirements of applicable federal tax law. The Master Servicer has also published its lending manual for the Program establishing additional origination, documentation and processing requirements. The Agency responds to inquiries by interested lenders by directing them to the Master Servicer and the appropriate page on the Master Servicer's website delineating information regarding the requirements a lender must satisfy to be eligible to participate in the Program. Lenders must complete an application process with the Master Servicer, including the payment of an application fee. Each Lender that satisfies the requirements of the Master Servicer and participates in the Program must execute a participation agreement with the Agency, which incorporates the Manual, and a participating lender agreement with the Master Servicer, which incorporates the Master Servicer's lending manual by reference. Generally, Lenders that participate in the Program receive no advance commitment of funds. Rather, Lenders may request an individual commitment of loan funds via the internet by entering loan information in the Agency's online loan purchase approval system (HDS SF Web Application). Each commitment request is subject to a review of the Agency's eligibility rules that are a part of the HDS SF Web Application. If the information entered by the Lender meets the eligibility rules, the loan funds are then committed for each specific loan for a specific period. Should a specific loan ultimately be rejected or cancelled, the funds are available for use by another eligible borrower and Lender. There is no prescribed limit on the amount of funds that may be used by an individual participating Lender, subject to availability of funds.

Lenders are not required to pay a reservation fee upon obtaining a commitment of funds through the HDS SF Web Application. If the Master Servicer has not received a loan package pursuant to an individual commitment after 60 days, the Agency, at its option, may charge and, if so charged, the Lender must agree to pay an extension fee to maintain the individual commitment for a specified, extended period of time. Unrefunded extension fees, if charged, are deposited into the funds from which the loans or the Program Securities are purchased, either the Alternative Loan Fund or the Revenue Fund under the Bond Resolution.

Qualified Borrowers

The Agency has established the maximum gross income for eligible borrowers under the Program based upon applicable federal law and Agency policy objectives. The maximum gross income of an eligible borrower under the Program is currently as follows:

Household Size	**11-County Twin Cities Metropolitan Area***	**Rochester MSA**	**Balance of State**
1 or 2 Persons	$83,900	$81,300	$73,900
3 or more Persons	96,485	93,495	84,985

*As used in this table, the "Twin Cities Metropolitan Area" comprises the following 11 counties: Anoka, Carver, Chisago, Dakota, Hennepin, Isanti, Ramsey, Scott, Sherburne, Washington, and Wright Counties.

The Agency will apply the income limitations set forth in Section 143(f) of the Code to applicants for loans financed with tax-exempt bonds under the Program. The Agency may revise the income limits for the loans from time to time to conform to State and federal law and Agency policy objectives.

At the time a loan is made, the borrower must certify his or her intention to occupy the mortgaged property as his or her principal residence.

Credit underwriting must be in compliance with FHA, VA, USDA Rural Development (formerly the Rural Housing and Community Development Service), Fannie Mae, Freddie Mac or the insuring private mortgage insurance company and the Master Servicer's underwriting standards.

Certain borrowers may be eligible for down payment and closing cost assistance, if needed for borrower qualification. See "Deferred Payment Loans," "Monthly Payment Loans" and "HOME Homeowner Entry Loan Program Loans" under "Other Programs" below.

Certain Fannie Mae Loan Products

In August 2010, the Agency began offering the Fannie Mae Housing Finance Agency Affordable Advantage loan product under the Minnesota Mortgage Program for borrowers with a qualifying credit score. The Affordable Advantage loan product enabled eligible state housing finance agencies to deliver loans with up to 100% loan-to-value ratios without mortgage insurance, although borrowers were required to contribute at least $1,000 of their own funds. The loan product carried a higher Fannie Mae guarantee fee and the Agency agreed to repurchase the loan in the first six months if the loan became four months consecutively delinquent or if the loan was delinquent at the sixth month, did not become current and became four months consecutively delinquent thereafter. The Affordable Advantage Program terminated effective March 31, 2011. Before termination, the Agency had purchased with proceeds of Bonds Program Securities backed by Affordable Advantage loans in the approximate principal amount of $12.97 million. Such Program Securities have the same Fannie Mae guarantee as other Fannie Mae Securities. The Agency no longer has a repurchase obligation in respect of any of these loans.

In May 2012, the Agency began offering the Fannie Mae HFA Preferred Risk Sharing™ loan product for borrowers who meet the qualifying guidelines. The HFA Preferred Risk Sharing™ loan product enables eligible state housing finance agencies to deliver loans with up to 97% loan-to-value ratios without mortgage insurance.

Currently, the interest-bearing, amortizing down payment and closing cost loan option, the Monthly Payment Loan, is available with this product. (See “Other Programs” below.) The loan product carries a higher Fannie Mae guarantee fee and the Agency must agree to repurchase the loan if it becomes delinquent in the first six months and remains delinquent for four consecutive months thereafter, or if the loan is delinquent at the sixth month, does not become current and remains delinquent for four consecutive months thereafter. The Agency has initial authority to purchase $75 million in HFA Preferred Risk Sharing loans. If such loans constitute Program Loans and are pooled into Program Securities acquired with proceeds of Bonds, the Program Securities would have the same Fannie Mae guaranty as other Fannie Mae Securities.

Qualified Real Property

Program Loans are eligible for residential property in Minnesota on which is located an owner-occupied one or two-family dwelling, or an owner-occupied residential unit in a condominium, townhouse or planned unit development.

The Agency has established maximum purchase prices under the Program pursuant to the requirements of applicable federal law. For the Series Bonds, the maximum purchase prices for both one and two-family homes currently are as follows:

If the property to be mortgaged is located in:	
Twin Cities Metropolitan Area	$298,125
Balance of State	$237,031

The Agency may revise the maximum purchase prices from time to time to conform to applicable State and federal law and Agency policy objectives.

Target Areas

Pursuant to applicable federal tax law, target areas have been established for the Program. Target areas consist of certain census tracts in the State in which 70 percent of the families have an annual income of 80 percent or less of the statewide median income or areas determined by the State and approved by the Secretary of the Treasury of the United States and the Secretary of the United States Department of Housing and Urban Development to be areas of chronic economic distress (the “Target Areas”). The Agency will make available the required amount of the proceeds of a Series of Bonds for the financing of loans for the purchase of residences located in Target Areas and will advertise the availability of such funds for loans in Target Areas. The Agency is also required to exercise reasonable diligence in seeking to finance residences in Target Areas. Absent any determination by the Agency that further availability of the proceeds of a Series of Bonds is required by federal law, any moneys remaining unused may be made available to finance the purchase of residences located anywhere within the State, or may be used to redeem Bonds.

Program Loans

Under the “whole loan” model utilized by the Agency until 2009, Program Loans were purchased from (1) Lenders including any bank, savings bank, credit union or mortgage company organized under the laws of Minnesota or the United States or nonprofit licensed by the State of Minnesota, and any mortgagee or lender approved or certified by the Secretary of Housing and Urban Development or by the Administrator of Veterans Affairs, or (2) any agency or instrumentality of the United States or the State.

Subject to the right of the Agency to modify the terms of Program Loans as described under “Security for the Bonds—Modification of Terms of Program Loans” in this Supplement, the Agency under applicable Series Resolutions has agreed to take or require a Servicer to take all measures, actions and proceedings reasonably necessary and deemed by it to be most effective to recover the balance due on a Defaulted Program Loan, including the curing of the default by the Mortgagor, foreclosure of the Mortgage, acceptance of a conveyance in lieu of foreclosure, sale of the Mortgage, renting or selling the Home, collection of any applicable mortgage insurance or guaranty, and preservation of the title to and value of the Home pending recovery of the balance of the Defaulted Program Loan. (See "State Laws Affecting Foreclosures" in Appendix C to this Supplement.)

Program Securities

Under the "MBS" model, the Trustee, on behalf of the Agency, is to purchase mortgage-backed GNMA I and GNMA II-Custom Pool securities, guaranteed as to timely payment of principal and interest by GNMA, mortgage-backed Fannie Mae Securities, guaranteed as to payment of principal and interest by Fannie Mae, and mortgage-backed Freddie Mac Securities, guaranteed as to payment by Freddie Mac (each a Program Security), each of which is backed by pools of mortgage loans which have been made by Lenders to qualified borrowers to finance the purchase of single family residential housing located in the State, in accordance with the Servicing Agreement, the Participation Agreements, the Manual and other Program documents. For additional information regarding GNMA, Fannie Mae, Freddie Mac, Program Securities and the Master Servicer, see Appendix F to this Supplement.

The Agency may participate each Program Security between different sources of funds of the Agency, so long as the interest of each has equal priority as to lien in proportion to the amount of the Program Security secured, but such interests need not be equal as to interest rate.

Servicing of Program Loans

Under the Program, the Agency has set forth requirements for the servicing and accounting of Program Loans in a Servicing Manual. Servicing may be granted to Lenders that demonstrate adequate technical capability to the Agency's satisfaction. Each Servicer must maintain at all times a fidelity bond and an errors and omissions policy issued by a company having a current rating in Best's Insurance Reports of A/AAA or better. Servicers are required to ensure that mortgagors maintain on each home a hazard insurance policy providing fire and extended coverage equal to or greater than that customary in the geographic area in which the home is located. Servicers are required to advise the Agency if a home is exposed to a risk not otherwise covered by the hazard insurance policy and the Agency may require additional coverage.

The Agency requires its Servicers to supply reports and other data sufficient to reconcile the transactions within its loan portfolio. Servicers remit mortgage collections daily to the Trustee. The Agency may, at any time, terminate a servicing agreement and re-assign servicing. Under the Program, Servicers will receive as compensation a monthly servicing fee not to exceed 0.375%/12 of the outstanding principal amount of Program Loans they service.

The Agency has established specific requirements for Servicers regarding the procedures to be followed in cases involving delinquencies. In addition to a monthly report requirement, Servicers are required, by following the Agency's procedures, to bring a delinquency current in the shortest practicable time. Servicers use the following tools in an effort to bring delinquencies current: borrowers may be referred to foreclosure prevention counselors, Servicers may, in some cases, accept partial payments, set up repayment plans with borrowers, enter into forbearance agreements, originate deferred payment second mortgage loans funded with Agency funds, modify the delinquent loan, approve a short sale and accept a deed-in-lieu of foreclosure. The Agency has significant flexibility under the Bond Resolution to modify the terms of a loan, including interest rate reductions, extension of loan term and principal forgiveness. (See "Security for the Bonds—Modification of Terms of Program Loans" in this Supplement.)

Servicing of Program Securities

A servicer of mortgage loans backing a Program Security must be a GNMA, Fannie Mae and Freddie Mac approved servicer experienced in servicing pools of mortgage loans for GNMA, Fannie Mae and Freddie Mac under their respective guaranteed mortgage-backed securities programs and be subject to the standards set forth in the GNMA Servicer's Guide, the Fannie Mae Single Family Selling and Servicing Guide and the Freddie Mac guidelines.

The Agency has entered into the Servicing Agreement with the Master Servicer to service mortgage loans backing Program Securities. For additional information regarding the Master Servicer, see Appendix F to this Supplement. Series Resolutions provide that in the event the Servicing Agreement is cancelled or terminated for any reason, the Agency shall proceed with due diligence to procure a successor Master Servicer, subject to the provisions of the Servicing Agreement and the requirements of each applicable Federal Mortgage Agency. During the period necessary to obtain such successor, the Trustee shall, subject to the approval of the applicable Federal Mortgage Agency, cause to be performed the duties and responsibilities of the Master Servicer, under the Servicing Agreement and shall be compensated therefor, in addition to the compensation payable to it under the Resolutions or any other instrument, in the same manner and amounts as provided under the Servicing Agreement.

Mortgage Loan Portfolio and Acquired Program Securities

As of December 31, 2012, the Agency had outstanding Program Loans receivable of $1,216,500,000 gross, which were financed from the proceeds of Bonds. As of December 31, 2012, excluding the proceeds of short-term bonds and notes, there were no uncommitted proceeds from previous bond sales under the Bond Resolution available for commitment. Certain information relating to mortgage insurance and delinquency and foreclosure statistics for the single family mortgage loan portfolio funded by or securing the Bonds as of December 31, 2012 is contained in Appendix D to this Supplement.

As of December 31, 2012, the following Program Securities (comprising GNMA Securities and Fannie Mae Securities) were pledged to secure Outstanding Bonds under the Bond Resolution:

	Principal Amount Outstanding	Percentage
GNMA II	$80,486,000	93.99%
FNMA	5,150,000	6.01
Total	$85,636,000	100.00%

OTHER PROGRAMS

The following information supplements and modifies, to the extent inconsistent therewith, the information in the Original Official Statement under the heading "Other Programs."

In addition to the Program funded from the proceeds of the Bonds, the Agency offers other housing programs that provide loans for the purchase or improvement of single family housing and the acquisition, construction or rehabilitation of multifamily rental housing in the State of Minnesota. The assets devoted to these programs are briefly described in the Notes to the Financial Statements in Appendix A to this Supplement.

For example, as of December 31, 2012, the Homeownership Finance Bond Fund had $624,490,000 in outstanding principal amount of mortgage-backed securities, which were financed from the proceeds of the Agency's homeownership finance bonds. As of December 31, 2012, the Agency had outstanding home improvement loans receivable of $95,567,000 gross. *None of such loans secure or are available for the payment of principal of or interest on the Bonds*.

The Agency recently defeased its Single Family Mortgage Bond Resolution and transferred substantially all of the excess assets thereunder to the Bond Resolution.

Step Up Program

In connection with the recent change in the Program (see "The Residential Housing Finance Program—Recent Program Developments" in this Supplement), the Agency has initiated its Step Up program, under which the Agency purchases mortgages made by mortgagors who are not first-time homebuyers or for refinancings. Down payment and closing cost assistance is available under the Step Up Program as described under "Monthly Payment Loans" below. The Agency intends to cause Step Up mortgage loans to be securitized and then sold on the secondary market or retained in the Agency's portfolio.

Deferred Payment Loans

The Agency has established a Homeownership Assistance Fund created with appropriations by the State Legislature from which deferred payment loans are made. In addition, the Alternative Loan Fund within the Bond Resolution is also a source of funding for these loans. A deferred payment loan is a junior lien loan made by the Agency to the mortgagor to assist in the payment of required down payment and closing costs on the home.

Mortgagors who meet program income requirements, program targeting criteria and who do not have sufficient cash for down payment and closing costs are eligible for entry cost assistance of up to three percent of the purchase price or $3,000, whichever is greater.

The down payment and closing cost assistance is an interest-free, deferred loan which is due on sale or transfer or when the property is no longer occupied by the mortgagor.

Program Loans backing Program Securities made or purchased from the proceeds of a Series of Bonds may or may not be accompanied by deferred payment loans. The Homeownership Assistance Fund has not been pledged to and is not available for the payment of principal or interest on Outstanding Bonds. Amounts on deposit in the Alternative Loan Fund are available for the payment of principal of or interest on the Bonds and other debt of the Agency, but are not pledged to payment of Outstanding Bonds or other debt.

HOME Homeowner Entry Loan Program Loans (HOME HELP)

The Agency has established a HOME HELP program created with federal HOME funds received by the Agency. A HOME HELP loan is a junior lien loan made by the Agency to the mortgagor to assist in the payment of required down payment and closing costs on the home. Borrowers who meet Federal HOME and program requirements, including but not limited to income, house price, Housing Quality Standards, Uniform Relocation Act compliance, and environmental review, are eligible for a base amount of $5,000. Additional assistance, up to a total of $10,000, is calibrated based on the needs of the household.

The HOME HELP loan is an interest free, deferred loan with a repayment agreement that recaptures 100% of the loan amount for the first six years and 50% of the loan amount after year six. Recapture occurs upon maturity of the first mortgage, upon voluntary or involuntary sale of the property, or when the property is no longer owner occupied. HOME HELP loans are not pledged to the payment of the Bonds.

Monthly Payment Loans

The Agency added a new down payment and closing cost loan option, the monthly payment loan, as part of the introduction of the Start Up program and the Step Up Program. The Alternative Loan Fund is the source of funding for these loans. A monthly payment loan is a junior lien loan made by the Agency. The interest-bearing, amortizing loan has a ten-year term with an interest rate equal to the interest rate of the applicable first mortgage. Borrowers can receive a monthly payment loan in an amount up to five percent of the purchase price or $5,000, whichever is greater.

TAX EXEMPTION

Dorsey & Whitney LLP, Minneapolis, Minnesota, rendered an opinion of Bond Counsel on the original date of issuance of the Series Bonds that under then-existing laws, regulations, rulings and judicial decisions, and assuming compliance with certain covenants of the Agency intended to assure compliance with the applicable provisions of the Internal Revenue Code of 1986, as amended, interest on the Series Bonds (including the 2006 Series C Bonds) is not includable in gross income of the owners thereof for federal income tax purposes, but interest on the 2006 Series C Bonds will be treated as a preference item for purposes of calculating the federal alternative minimum taxable income of individuals and corporations. Bond Counsel further opined that interest on the Series Bonds is not includable in the taxable net income of individuals, trusts and estates for Minnesota income tax purposes but interest on the Series Bonds is includable in the income of financial institutions and corporations for purposes of the Minnesota franchise tax, and interest on the 2006 Series C Bonds is includable in the Minnesota alternative minimum taxable income of individuals, estates and trusts. A copy of the opinion of Bond Counsel delivered on the date of issuance of the 2006 Series C Bonds is set forth in Appendix G to the Original Official Statement. (See also "Tax Exemption and Related Considerations" in the Original Official Statement for additional information.) Dorsey & Whitney LLP has not updated its opinion of Bond Counsel and has not undertaken any investigation to determine whether interest on the Series Bonds is not includable in gross income of the owners thereof for federal or state income tax purposes after the date of issuance of the Series Bonds.

In the opinion of Kutak Rock LLP, Atlanta, Georgia, to be dated concurrently with the delivery of the Replacement Liquidity Facility, the delivery of the Replacement Liquidity Facility, in and of itself, will not adversely affect the exclusion of interest on the 2006 Series C Bonds from gross income for federal income tax purposes, assuming it otherwise exists.

There are or may be pending in the Congress of the United States legislative proposals, including some that carry retroactive effective dates, that, if enacted, could alter or amend the federal tax matters referred to above or affect the market value of the 2006 Series C Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether, if enacted, it would apply to bonds issued prior to enactment. Prospective purchasers of the 2006 Series C Bonds should consult their own tax advisors regarding any pending or proposed federal tax legislation. No counsel expresses an opinion regarding any pending or proposed federal tax legislation.

LITIGATION

There is not now pending or, to the best knowledge of the officers of the Agency, overtly threatened any litigation against the Agency in any manner questioning or affecting the validity of the Series Bonds or the proceedings or authority pursuant to which they are to be issued and sold.

The Agency is a party to various litigation arising in the ordinary course of business. While the ultimate effect of such actions cannot be predicted with certainty, the Agency expects that the outcome of these matters will not result in a material adverse effect on the financial position or results of operations of the Agency.

LEGAL MATTERS

Certain legal matters incident to the remarketing of the 2006 Series C Bonds will be passed upon by Kutak Rock LLP, Atlanta, Georgia. Certain legal matters relating solely to the Replacement Liquidity Facility will be passed upon for the Replacement Liquidity Provider by Chapman and Cutler LLP, of Chicago, Illinois.

RATINGS

The 2006 Series C Bonds are rated "Aa1/VMIG 1" by Moody's and are rated "AA+/A-1+" by S&P. The short-term ratings assigned to the 2006 Series C Bonds will be conditioned upon the issuance by the Replacement Liquidity Provider of the Replacement Liquidity Facility. The Moody's ratings and the S&P ratings, if assigned, reflect only the views of the applicable rating agency, and an explanation of the significance of such ratings may be obtained only from the rating agency and its published materials. The ratings are not a recommendation to buy, sell or hold the 2006 Series C Bonds. There can be no assurance that any such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely if, in the judgment of the rating agency, circumstances so warrant. Therefore, after the date hereof, investors should not assume that such ratings are still in effect. A downward revision or withdrawal of a rating is likely to have an adverse effect on the market price and marketability of the 2006 Series C Bonds. The Agency has not assumed any responsibility either to notify the owners of the 2006 Series C Bonds of any proposed change in or withdrawal of such rating subsequent to the date of this Supplement, except in connection with the reporting of events as provided in the Continuing Disclosure Agreement (see Appendix D to the Original Official Statement), or to contest any such revision or withdrawal.

FINANCIAL ADVISOR

CSG Advisors Incorporated (the "Financial Advisor") is serving as financial advisor to the Agency with respect to the remarketing of the 2006 Series C Bonds. The Financial Advisor assisted in the preparation of this Supplement and in other matters relating to the remarketing of the 2006 Series C Bonds and provided other advice to the Agency. The Financial Advisor does not underwrite or trade bonds and will not engage in any underwriting activities with regard to the remarketing of the 2006 Series C Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification, or to assume responsibility for the accuracy, completeness or fairness, of the information contained in this Supplement and is not obligated to review or ensure compliance with continuing disclosure undertakings.

RELATIONSHIPS OF PARTIES

Wells Fargo Bank, National Association will serve as the Remarketing Agent, the Trustee, and the Replacement Liquidity Provider, and is a subsidiary of Wells Fargo & Company.

Wells Fargo Bank, National Association ("WFBNA"), the Remarketing Agent for the 2006 Series C Bonds, has entered into an agreement (the "Distribution Agreement") with Wells Fargo Advisors, LLC ("WFA") for the distribution of certain municipal securities offerings, including the 2006 Series C Bonds. Pursuant to the Distribution Agreement, WFBNA will share a portion of its remarketing agent compensation with respect to the 2006 Series C Bonds with WFA. WFBNA also utilizes the distribution capabilities of its affiliates, Wells Fargo Securities, LLC ("WFSLLC") and Wells Fargo Institutional Securities, LLC ("WFIS"), for the distribution of municipal securities offerings, including the 2006 Series C Bonds. In connection with utilizing the distribution capabilities of WFSLLC, WFBNA pays a portion of WFSLLC's expenses based on its municipal securities transactions. WFBNA, WFSLLC, WFIS, and WFA are each wholly-owned subsidiaries of Wells Fargo & Company.

Wells Fargo Securities is the trade name for certain securities-related capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association.

MISCELLANEOUS

This Supplement is submitted in connection with the remarketing of the 2006 Series C Bonds and may not be reproduced or used, as a whole or in part, for any other purpose. Any statement made or incorporated in this Supplement involving matters of opinion or estimates, whether or not expressly so stated, are set forth as such and not as representations of fact. This Supplement is not to be construed as a contract or agreement between the Agency and the purchasers or owners of any of the 2006 Series C Bonds.

The execution and delivery of this Supplement have been duly authorized by the Agency.

MINNESOTA HOUSING FINANCE AGENCY

By /s/ Mary Tingerthal
Commissioner

Dated: March 12, 2013.

APPENDIX A

**AUDITED FINANCIAL STATEMENTS OF THE AGENCY
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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MINNESOTA HOUSING FINANCE AGENCY
Annual Financial Report as of and for the year ended June 30, 2012

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MINNESOTA HOUSING FINANCE AGENCY
Commissioner's Report

At Minnesota Housing, we are pleased to have completed another year with strong financial and programmatic results.

As housing and financial markets begin a slow recovery nationally, conditions in Minnesota are slightly ahead of the national average with unemployment at 5.6% (compared to 8.2% nationally) and with average home prices increasing 14.3% since February of 2012. The median home sales price increased 14 percent from $157,500 in July 2011 to $179,950 in July 2012. Foreclosure sales are down 19% in Minnesota from an annual peak of 26,251 in 2008 to 21,298 this year. In this marketplace environment, Minnesota Housing has capitalized on improving conditions to improve both its product offerings and its financial condition:

- With the conclusion of the U.S. Treasury Department's New Issue Bond Program at the end of 2011, Minnesota Housing has taken numerous steps to continue its single family mortgage lending programs. The Agency continues to use several mortgage-backed securities executions to access capital at rates that are attractive for borrowers. The Agency completed a highly successful tax-exempt bond refunding transaction early in the year. This was followed by a tax-exempt bond offering that featured an innovative monthly GNMA pass-through structure that was extremely well received in the marketplace. The Agency is also participating in a new risk-share program with Fannie Mae that is available in only a few states. By the end of 2012, the Minnesota Housing will also be positioned to sell securities directly in the GMNA TBA market.

- By increasing its options for accessing capital markets, Minnesota Housing has both simplified and improved its single family mortgage lending products. Beginning in the fourth quarter of 2012, Minnesota Housing will offer loans not only for its traditional first-time homebuyer customers, but will also offer loans for low and moderate income homeowners who need to refinance or purchase homes. Minnesota Housing will also expand its closing cost assistance programs by offering an amortizing closing cost loan for the first time. The Agency has also simplified its home improvement loan products, introducing them to the market in June of this year.

- Mortgage loan delinquency and foreclosure rates have continued to improve for the Minnesota Housing portfolio. The Agency saw improving delinquency rates during the fiscal year, declining from 5.70% for 60+ days in June of 2011 to 5.63% in June of this year. Real Estate Owned (REO) also declined from 186 properties to 135 properties during that same period. As a result of these trends, the Agency's allowance for loan loss has decreased by more than $2 million since last year.

- With economic conditions improving in Minnesota, the state legislature passed a $500 million capital investment bill in early 2012, which included two allocations of funding for Minnesota Housing. Minnesota Housing received authorization for an additional $30 million to be used primarily for multifamily rental developments that are focused on preservation of existing federally-subsidized properties, supportive housing for households that have experienced homelessness or redevelopment of foreclosed properties. The Agency will also administer a $5.5 million program for the renovation of existing public housing properties that will be funded with the proceeds of state general obligation bonds. With these resources, Minnesota Housing projects that it will help with development or rehabilitation of nearly 1,000 units of housing that would not otherwise have received complete funding packages this year.

During the fiscal year, Minnesota Housing achieved the following programmatic results:

- Purchased 2,263 new home mortgages for first time homebuyers, of which 23.4% were to emerging market households.

- Closed 58 loans and grants on 44 multifamily properties totaling nearly $50 million and providing affordable housing to 1,525 households (units), 157 of which were designated to serve long-term homeless households.

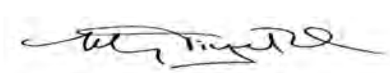
- Continued a strong commitment to foreclosure prevention, winning an allocation of nearly $1.2 million in counseling resources under the National Foreclosure Mitigation Counseling program that will serve an estimated 3,600 households. Historically, 60% of families receiving foreclosure counseling in Minnesota have avoided foreclosure, with 89% of those households able to remain in their home.

- Opened the doors to nearly 300 units of supportive housing for families and individuals who experienced long term homelessnes.

Minnesota Housing took other important steps during the year to set our course for the future:

- Adopted a new Strategic Plan for 2013 – 2015 that articulates the Agency's strategic priorities and strategies to address those priorities. The strategic priorities are:
    - To promote and support successful homeownership
    - To preserve federally subsidized rental housing
    - To address specific and critical needs in rental housing
    - To prevent and end homelessness
    - To prevent foreclosures and support community recovery
- Adopted a set of work force recruitment, development and retention practices to attract and retain an outstanding workforce.
- Adopted a roadmap for technology development that will guide significant investment in the Agency's business processes and the technology to support them over the next 2 to 3 years.

We are proud that Minnesota Housing is an organization that is driven by both our mission and our strategies. We are committed to building and maintaining the elements that have sustained our work for more than 40 years – our people, our partners, our community support and our financial strength.



Mary Tingerthal, Commissioner

Minnesota Housing
August 29, 2012

Independent Auditors' Report

Members of the Board of Directors
Minnesota Housing Finance Agency
St. Paul, Minnesota

We have audited the accompanying financial statements of the business-type activities and each major fund (General Reserve, Rental Housing, Residential Housing Finance, Single Family, Homeownership Finance, Multifamily Housing, State Appropriated, and Federal Appropriated) of the Minnesota Housing Finance Agency (the Agency), a component unit of the State of Minnesota, as of and for the year ended June 30, 2012, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year comparative information has been derived from the Agency's 2011 financial statements and, in our report dated August 24, 2011, we expressed unqualified opinions on the respective financial statements of the business-type activities and each major fund.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund (General Reserve, Rental Housing, Residential Housing Finance, Single Family, Homeownership Finance, Multifamily Housing, State Appropriated, and Federal Appropriated) of the Agency, as of June 30, 2012, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The introductory section and supplemental information is presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory section and supplemental information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
August 29, 2012

MINNESOTA HOUSING FINANCE AGENCY
Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's Discussion and Analysis of Financial Condition and Results of Operations is not audited. However, it is supplementary information required by accounting principles generally accepted in the United States of America. This discussion should be read in conjunction with the financial statements and notes thereto.

Introduction

The Minnesota Housing Finance Agency (Minnesota Housing or the Agency) was created in 1971 by the Minnesota legislature through the enactment of Minnesota Statutes, Chapter 462A, which has been amended from time to time. The Agency was established to facilitate the construction and rehabilitation of housing in Minnesota for families of low- and moderate-income by providing mortgage loans, development loans, and technical assistance to qualified housing sponsors. Minnesota Housing is a component unit of the State of Minnesota and receives appropriations from the state legislature, substantially all of which are used to make loans or grants under specified state-defined programs and to pay debt service and related expenses on state appropriation-backed nonprofit housing bonds. Minnesota Housing also receives funds appropriated by the federal government for similar program purposes. The Agency's mission is to finance and advance affordable housing opportunities for low- and moderate-income Minnesotans to enhance quality of life and foster strong communities.

Minnesota Housing is authorized to issue bonds and notes to fulfill its corporate purposes up to a total outstanding amount of $5.0 billion and to incur other indebtedness. None of the bonds, notes or other indebtedness is a debt of the State of Minnesota or any political subdivision thereof.

Minnesota Housing operates three program divisions — Multifamily, Single Family and Community Development — which offer housing programs with funding from the sale of tax-exempt and taxable bonds, state and federal appropriations, the Housing Trust Fund and the Alternative Loan Fund. The federal Low Income Housing Tax Credit is another resource the Agency allocates. The members of Minnesota Housing (the Board) consist of six public members appointed by the Governor with the advice and consent of the state senate and the State Auditor as an ex-officio member.

Discussion of Financial Statements

The Financial Section of this report consists of three parts: the independent auditors' report, management's discussion and analysis (this section), and the basic financial statements. The basic financial statements are prepared on an accrual basis and presented on an Agency-wide basis and by fund.

- Agency-wide financial statements provide information about Minnesota Housing's overall financial position and results of operations. These statements consist of the Statement of Net Assets and the Statement of Activities. Significant interfund transactions have been eliminated within the Agency-wide statements. Assets and revenues of the separate funds that comprise the Agency-wide financial statements are generally restricted as to use and the reader should not assume they may be used for every corporate purpose.
- The fund financial statements provide information about the financial position and results of operations for Minnesota Housing's eight proprietary funds.
- The financial statements also include "Notes to Financial Statements" which provide more detailed explanations of certain information contained in the Agency-wide and fund financial statements.

Supplementary Information is presented following the Notes to Financial Statements for certain funds of Minnesota Housing, which have been established under the bond resolutions under which Minnesota Housing issues bonds and other debt for its programs. These funds consist of General Reserve and the bond funds, which are Rental Housing, Residential Housing Finance, Single Family, Homeownership Finance and Multifamily Housing.

The basic financial statements also include comparative totals as of and for the year ended June 30, 2011. Although not required, these comparative totals are intended to facilitate an understanding of Minnesota Housing's financial position and results of operations for fiscal year 2012 in comparison to the prior fiscal year.

Discussion of Individual Funds

General Reserve

The purposes of General Reserve are to maintain sufficient liquidity for Minnesota Housing operations, to hold escrowed funds and to maintain the Housing Endowment Fund (also referred to as Pool 1). The costs of administering Minnesota Housing programs are captured on the Statement of Revenues and Expenses for General Reserve. The fees earned are generally related to the administration of the federal Low Income Housing Tax Credit program, administration of the federal Housing Assistance Payment program, and contract administration of the Section 8 program for developments not financed by Minnesota Housing.

Rental Housing

The majority of the developments with a first mortgage loan presently held in Rental Housing receive Section 8 payments under contracts that are for substantially the same length of time as the mortgage loans.

Inherent risks remain in these portfolios, especially for multifamily developments without project-based tenant subsidies. Maintaining asset quality is a high priority for Minnesota Housing; therefore, this portfolio receives a significant amount of oversight.

All of Minnesota Housing's bond-financed multifamily loans, except one loan financed under Multifamily Housing, are financed in Rental Housing as of June 30, 2012. Funds in excess of bond resolution requirements may be withdrawn and used to redeem any Agency bonds, to fund housing programs and for Agency operations.

Residential Housing Finance

Included within Residential Housing Finance are the bonds issued and outstanding under the Residential Housing Finance bond resolution, the limited obligation notes issued under separate resolutions, and the restricted by covenant Alternative Loan Fund which consists of the Housing Investment Fund (Pool 2), the Housing Affordability Fund (Pool 3) and limited obligation note accounts.

Bonds have been issued for the purpose of funding purchases of single family first mortgage loans, mortgage-backed securities backed by single family mortgage loans, certain entry cost housing assistance loans, and subordinated home improvement mortgage loans. The majority of the single family loans financed by these bond issues are insured by private mortgage insurance or the Federal Housing Administration (FHA), or guaranteed by the U.S. Department of Veterans Affairs (VA) or the U.S. Department of Agriculture Rural Development (RD). While mortgage insurance and guarantees help mitigate the risk of loss to the Agency, inherent risks remain including the impact of declining home values on default recoveries and the risk of deterioration to the credit worthiness of insurers. The Agency's collection experience among mortgage insurers has been generally favorable.

This bond resolution was the principal source of financing for bond-financed homeownership programs from fiscal year 2002 until fiscal year 2010 (see Homeownership Finance, below). Minnesota Housing may also issue bonds for its home improvement loan program under this bond resolution although no bonds were issued to support home improvement lending during fiscal year 2012.

Assets of the Housing Investment Fund (Pool 2) consist of investment quality housing loans, as defined by the Agency, and investment grade securities. During fiscal year 2012 this fund provided capital for several Agency programs including its home improvement loan program and its multifamily first-mortgage loan program, for warehousing purchases of mortgage-backed securities secured by single family first mortgage loans, for tax credit bridge loans, loans to partner organizations to acquire, rehabilitate and sell foreclosed homes and to develop new affordable housing, loans to facilitate transfers of ownership of manufactured home parks to resident owners, contributions for limited obligation note expenses and bond sale contributions. The fund may also provide interim financing for construction and rehabilitation of single family housing and may be used to advance funds to retire debt.

Assets of the Housing Affordability Fund (Pool 3) consist of investment-grade securities when not utilized for program purposes. Program purposes include, but are not limited to: no-interest loans, loans at

Discussion of Individual Funds (continued)

interest rates substantially below market, high risk loans, deferred loans, revolving funds, and grants. During fiscal year 2012 funds from Pool 3 were used for entry cost assistance for first-time homebuyers, below-market interim financing for construction and rehabilitation of single family housing, capital costs and rental assistance for permanent supportive housing, and deferred, subordinated multifamily loans.

Funds in excess of bond resolution requirements may be withdrawn and used to redeem any Agency bonds, to fund housing programs and for Agency operations.

Single Family

This fund was the principal source of financing for Minnesota Housing's bond-financed homeownership programs until fiscal year 2002 when Minnesota Housing began using the more flexible Residential Housing Finance fund as its principal source of financing for these programs. To take advantage of favorable refunding opportunities, all outstanding bonds in the Single Family resolution were defeased on April 26, 2012. By June 30, 2012 all remaining Single Family assets and liabilities were transferred to the Residential Housing Finance fund.

Homeownership Finance

This bond resolution was adopted for the purpose of issuing mortgage revenue bonds under the United States Treasury's Single Family New Issue Bond Program (NIBP), although non-NIBP mortgage revenue bonds may be issued under this resolution if they meet resolution requirements. Bonds issued under this resolution fund mortgage-backed securities backed by single family mortgage loans. These securities are guaranteed as to payment of principal and interest by either the Government National Mortgage Association or the Federal National Mortgage Association. Mortgage-backed securities were funded for the first time by bonds issued under this resolution during fiscal year 2011. The Agency used its remaining NIBP authority to issue bonds during fiscal year 2012. Further issuance by the Agency under the NIBP cannot take place unless the United States Treasury extends the program.

Funds in excess of bond resolution requirements may be withdrawn and used to redeem any Agency bonds, to fund housing programs and for Agency operations.

Multifamily Housing

This bond resolution was adopted for the purpose of issuing multifamily housing bonds under the United States Treasury's Multifamily New Issue Bond Program. Bonds were issued for a rental housing project. The mortgage loan closed during fiscal 2011 and was funded during fiscal year 2012.

State and Federal Appropriated Funds

The appropriated funds are maintained by Minnesota Housing for the purpose of receiving and disbursing monies appropriated by the state and federal government for housing. All of the appropriated funds' net assets are restricted by law for specified uses set forth in the state appropriations or federal contracts and are not pledged or available to secure the bondholders or creditors of Minnesota Housing.

The State Appropriated fund was established to account for funds received from the state legislature, which are to be used for programs for low- and moderate-income persons and families and multifamily housing developments in the form of low-interest loans, no-interest deferred loans, low-interest amortizing loans, debt service and other costs associated with appropriation-backed bonds, and other housing-related program costs.

The Federal Appropriated fund was established to account for funds received from the federal government which are to be used for programs for low- and moderate-income persons and families and multifamily housing developments in the form of no-interest deferred loans and grants in support of foreclosure counseling and remediation efforts, assistance to tax credit developments and other housing-related program costs.

General Overview

Minnesota Housing financial statements are presented in two formats: agency-wide and by fund. Funds include Rental Housing, Residential Housing Finance, Single Family, Homeownership Finance and Multifamily Housing (collectively the bond funds); State and Federal Appropriated (collectively the appropriated funds) and General Reserve. Agency-wide financial statements are provided to display a comprehensive view of all Minnesota Housing funds as required by accounting principles generally accepted in the United States of America applicable to governmental entities under accounting standards promulgated from time to time by the Governmental Accounting Standards Board. Agency-wide financial statements reflect totals of similar accounts for various funds. However, substantially all of the funds in these accounts are restricted as to use by Agency covenants or legislation as further described below.

Assets and revenues of the bond funds are restricted to uses specifically set forth in the respective bond resolutions and are pledged for the primary benefit of the respective bondholders and swap counterparties. General Reserve is created under the Minnesota Housing bond resolutions as part of the pledge of the general obligation of Minnesota Housing. Minnesota Housing covenants in the bond resolutions that it will use the assets in General Reserve only for administration and financing of programs in accordance with the policy and purpose of the Minnesota Housing enabling legislation, including reserves for the payment of bonds and notes and of loans made from the proceeds thereof, and accumulate and maintain therein such a balance of funds and investments as will be sufficient for the purpose.

Minnesota Housing has no taxing power and neither the State of Minnesota nor any political subdivision thereof is legally obligated to pay the principal of or interest on bonds or other obligations issued by Minnesota Housing. The state has pledged to and agreed with bondholders that it will not limit or alter the rights vested in Minnesota Housing to fulfill the terms of any agreements made with bondholders or in any way impair the rights and remedies of the bondholders.

Public funds directly appropriated to Minnesota Housing by the State of Minnesota or made available to Minnesota Housing from the federal government are restricted by law to specified uses set forth in the state appropriations or federal contracts. Assets and revenues of State Appropriated and Federal Appropriated funds are not pledged or available to secure bonds or other obligations of Minnesota Housing or its general obligation pledge in respect thereof.

In addition to its audited annual financial statements, Minnesota Housing has published unaudited quarterly disclosure reports for Single Family, Residential Housing Finance, and Homeownership Finance bond resolutions and unaudited semiannual disclosure reports for the Rental Housing bond resolution. The Single Family disclosure report of March 31, 2012 is the final report since those bonds were defeased in April, 2012. Recent disclosure reports can be found in the "Investors" section on Minnesota Housing's web site at www.mnhousing.gov.

Selected Elements from Statement of Net Assets (in $000s)

		Agency-wide Total		
		As of June 30, 2012	As of June 30, 2011	Change
Assets	Cash and Investments	$1,317,483	$1,449,604	$(132,121)
	Loans receivable, Net	1,845,098	2,065,339	(220,241)
	Interest Receivable	16,296	17,601	(1,305)
	Total Assets	3,260,458	3,614,326	(353,868)
Liabilities	Bonds Payable	2,170,089	2,555,414	(385,325)
	Interest Payable	42,987	46,799	(3,812)
	Accounts Payable and Other Liabilities	12,503	17,062	(4,559)
	Funds Held for Others	76,887	96,996	(20,109)
	Total Liabilities	2,347,578	2,750,720	(403,142)
Net Assets	Restricted by Bond Resolution	331,630	281,199	50,431
	Restricted by Covenant	468,735	469,496	(761)
	Restricted by Law	110,578	111,466	(888)
	Total Net Assets	912,880	863,606	49,274

Selected Elements From Statement of Revenues, Expenses, and Changes in Net Assets (in $000s)

		Agency-wide Total		
		Fiscal 2012	Fiscal 2011	Change
Revenues	Interest Earned	$151,289	$151,328	$ (39)
	Appropriations Received	243,882	303,615	(59,733)
	Fees and Reimbursements	13,712	18,855	(5,143)
	Total Revenues (1)	470,311	491,613	(21,302)
Expenses	Interest Expense	99,320	97,189	2,131
	Appropriations Disbursed	230,921	286,572	(55,651)
	Fees and Reimbursements	5,855	6,203	(348)
	Payroll, General & Admin.	26,621	32,753	(6,132)
	Loan Loss/Value Adjustments	38,535	71,089	(32,554)
	Total Expenses (1)	421,037	513,055	(92,018)
	Revenues over (under) Expenses	49,274	(21,442)	70,716
	Beginning Net Assets	863,606	885,048	(21,442)
	Ending Net Assets	912,880	863,606	49,274

(1) Agency-wide totals include interfund amounts

Combined General Reserve and Bond Funds					Combined State and Federal Appropriations Funds		
As of June 30, 2012							
Excluding Pool 3	Pool 3	Total	As of June 30, 2011	Change	As of June 30, 2012	As of June 30, 2011	Change
$1,203,559	$31,561	$1,235,120	$1,353,655	$(118,535)	$ 82,363	$ 95,949	$(13,586)
1,782,556	28,572	1,811,128	2,030,451	(219,323)	33,970	34,888	(918)
15,851	212	16,063	17,365	(1,302)	233	236	(3)
3,082,933	60,346	3,143,279	3,481,623	(338,344)	117,179	132,703	(15,524)
2,170,089	-	2,170,089	2,555,414	(385,325)	-	-	-
42,987	-	42,987	46,799	(3,812)	-	-	-
9,759	74	9,833	15,019	(5,186)	2,670	2,043	627
73,562	-	73,562	78,206	(4,644)	3,325	18,790	(15,465)
2,358,835	(17,858)	2,340,977	2,729,483	(388,233)	6,601	21,237	(14,636)
331,630	-	331,630	281,199	50,431	-	-	-
390,531	78,204	468,735	469,496	(761)	-	-	-
-	-	-	-	-	110,578	111,466	(888)
724,098	78,204	802,302	752,140	50,162	110,578	111,466	(888)

Combined General Reserve and Bond Funds					Combined State and Federal Appropriations Funds		
Fiscal 2012							
Excluding Pool 3	Pool 3	Total	Fiscal 2011	Change	Fiscal 2012	Fiscal 2011	Change
$148,861	$ 1,146	$150,007	$149,462	$ 545	$ 1,282	$ 1,866	$ (584)
-	-	-	-	-	243,882	303,615	(59,733)
13,916	(936)	12,980	14,209	(1,229)	732	4,646	(3,914)
220,650	2,195	222,845	180,821	42,024	247,466	310,792	(63,326)
99,320	-	99,320	97,189	2,131	-	-	-
-	-	-	-	-	230,921	286,572	(55,651)
23,701	1,069	24,770	24,192	578	68	64	4
22,777	2,217	24,994	27,214	(2,220)	1,627	5,539	(3,912)
17,392	6,207	23,599	36,814	(13,215)	14,936	34,275	(19,339)
163,190	9,493	172,683	185,409	(12,726)	248,354	327,646	(79,292)
57,460	(7,298)	50,162	(4,588)	54,750	(888)	(16,854)	15,966
683,638	68,502	752,140	756,728	(4,588)	111,466	128,320	(16,854)
724,098	78,204	802,302	752,140	50,162	110,578	111,466	(888)

FINANCIAL HIGHLIGHTS

The following financial highlights section refers to the General Reserve and bond funds. The reader is encouraged to review the Fund Financial Statements included as supplementary information in this 2012 Financial Report.

General Reserve and Bond Funds — Statement of Net Assets

Loans receivable, investments, cash and cash equivalents, deferred loss on interest rate swap agreements, real estate owned, and interest receivable comprise the majority of assets in the General Reserve and bond funds. Equipment, fixtures, furniture, capitalized software costs, and other assets continue to be insignificant in relation to the total General Reserve and bond fund assets.

Loans receivable, net is the largest single category of bond fund assets. Loans are limited to housing-related lending for low- and moderate-income individuals and families and multifamily housing developments. Loans receivable, net decreased 11% to $1,811.1 million at June 30, 2012 as a result of repayments, prepayments, and loss reserves net of new loan purchases and originations. Amortizing homeownership loans at fixed interest rates, secured by first mortgages, continue to be the dominant loan product offered by Minnesota Housing. In the last half of 2009, the Agency changed its business model from purchasing homeownership loans to purchasing mortgage-backed securities (MBS) secured by homeownership loans. As a result, the homeownership loan portfolio, now in runoff, will continue to shrink as repayments and prepayments are no longer offset by new loans. Instead, the portion of investments represented by MBS will increase as they are purchased in place of loans. The reduction in loans receivable during fiscal year 2012 was attributable to the runoff of the homeownership loan portfolio. The reserve for loan loss for the homeownership loan portfolio increased due to an increase in the estimated loss per delinquent loan. Minnesota Housing also has amortizing home improvement and rental rehabilitation loans which are no-interest, low-interest, and market-rate loans generally secured with second or subordinate mortgages. The reserve for loan loss for the home improvement loan portfolio decreased due to runoff in the portfolio (as displayed in the following Home Improvement Loan Portfolio Delinquency table). Amortizing multifamily loans at fixed interest rates, secured by first mortgages (referred to as the multifamily portfolio) exhibited little change in delinquency rate and the aggregate loan receivable balance. The reserve for loan loss methodology for the multifamily portfolio was changed during fiscal year 2012. The new methodology more accurately reflects financial risk and responds to economic and market changes that alter the Agency's risk from these loans. This replaced the establishment of reserves at a certain predetermined fixed rate by multifamily loan type. The effect of implementing this change as of June 30, 2012 was to reduce the reserve by $12.756 million from the amount it would have been if the reserve had been calculated under the old methodology. Minnesota Housing's primary loan programs offer fixed interest rate financing and therefore differ from the high risk characteristics associated with some adjustable payment loan products.

Homeownership Loan Portfolio Delinquency
Actual Loan Count

	June 30, 2012		June 30, 2011	
Current and less than 60 days past due	13,455	91.93%	15,299	92.00%
60-89 days past due	280	1.91%	310	1.90%
90-119 days past due	140	0.96%	149	0.90%
120+ days past due and foreclosures (1)	761	5.20%	862	5.20%
Total count	14,636		16,620	
Total past due (1)	1,181	8.07%	1,321	7.95%

(1) In addition to loans customarily included in foreclosure statistics, "foreclosures" include homeownership loans for which the sheriff's sale has been held and the redemption period (generally six months) has not yet elapsed. This causes the delinquency rates in the table not to be directly comparable to delinquency rates reported by the Mortgage Bankers Association of America.

General Reserve and Bond Funds — Statement of Net Assets (continued)

Home Improvement Loan Portfolio Delinquency
Actual Loan Count

	June 30, 2012		June 30, 2011	
Current and less than 60 days past due	7,701	96.96%	8,798	97.14%
60-89 days past due	83	1.05%	57	0.63%
90-119 days past due	45	0.57%	38	0.42%
120+ days past due	113	1.42%	164	1.81%
Total count	7,942		9,057	
Total past due	241	3.03%	259	2.86%

The 60+ day delinquency rate as of June 30, 2012 for the entire Minnesota Housing homeownership loan portfolio, excluding those loans not customarily included in foreclosure statistics, exceed by approximately four percentage points the delinquency rates of similar loan data available as of March 31, 2012 from the Mortgage Bankers Association of America for loans in Minnesota (as adjusted to reflect the proportions of insurance types in the Agency's loan portfolio).

Due to the unique program characteristics of the Minnesota home improvement loan portfolio, the Agency has determined that comparable delinquency data from other available sources is not directly comparable. The table above excludes inactive home improvement loans defined as delinquent loans for which the Agency has a valid lien but active collection efforts have been curtailed.

FHA/VA insurance claims, net consist of non-performing homeownership loans that are FHA insured or VA guaranteed. These loans are reclassified as claims receivable at the time the Agency files a claim. FHA/VA insurance claims, net increased 20% to $9.321 million at June 30, 2012 as a result of an increase in the amount of loans with outstanding claims.

Real estate owned, net consists of properties acquired upon foreclosure of homeownership loans. Real estate owned decreased 37% to $15.566 million at June 30, 2012 as a result of a decreased amount of foreclosure properties held within the homeownership portfolio on June 30, 2012.

While the delinquency rates and foreclosures in the Agency's loan portfolio remained above historical norms during fiscal year 2012, the combined net total of FHA/VA insurance claims and real estate owned remains immaterial compared to total loans receivable at June 30, 2012, being less than 1.35% of total net loans receivable. Management believes that reserves for loan losses are adequate based on the current assessment of asset quality.

There are no loans in General Reserve.

Investments, cash, and cash equivalents are the next largest categories of assets and are carefully managed to provide adequate resources for future debt service requirements and liquidity needs. The combined investments, cash, and cash equivalents decreased 9% to $1,235.1 million at June 30, 2012. The decrease is principally a result of two items. First, loans receivable decreased $219.3 million during fiscal year 2012 which resulted in an increase in cash and investments. Second, that increase was reduced by the cash and investments required to pay down bonds payable by a net $385.3 million. Certain mortgage-backed securities are pledged as security for the payment of certain Agency bonds and are held in an acquisition account. Mortgage-backed securities with these two characteristics are classified on the statement of net assets as "Investments- program mortgage-backed securities." All other mortgage-backed securities, including those held in anticipation of the Agency issuing mortgage revenue bonds (warehoused mortgage-backed securities), are classified as "Investment securities- other."

Interest receivable on loans and investments is a function of the timing of interest payments and the general level of interest rates. Combined loan and investment interest receivable decreased 7% to $16.063

General Reserve and Bond Funds — Statement of Net Assets (continued)

million at June 30, 2012. The decrease is mainly a result of a decrease in interest receivable on loans due to a decrease in bonds payable, net during fiscal year 2012.

While there is no debt issued in General Reserve, there is a significant liability for funds held for others. These funds are routinely collected and held in escrow on behalf of multifamily borrowers pursuant to loan documents and are used for future periodic payments of real property taxes, casualty insurance premiums, and certain capital expenditures. Funds held for others in General Reserve decreased 6% to $73.562 million at June 30, 2012 as multifamily escrows decreased.

Accounts payable and other liabilities decreased to $9.834 million at June 30, 2012. The two largest components of accounts payable continue to be: arbitrage rebate liability on tax-exempt bonds calculated pursuant to federal law and payable to the United States Treasury, which decreased $1.721 million; and yield compliance liability, which decreased $2.550 million. Minnesota Housing obtains from independent calculation specialists annual calculations of its arbitrage rebate liability. Other accounts payable items decreased a net $0.915 million.

Interfund payable/receivable exists primarily as a result of interfund borrowing and pending administrative and program reimbursements between funds. Most administrative expenses are paid from General Reserve, with the bond funds and appropriated funds owing an administrative reimbursement to General Reserve for the respective fund's contribution to those administrative expenses.

Net assets of General Reserve and bond funds are divided into two primary categories. Net Assets Restricted by Bond Resolution are pledged to the payment of bonds, subject to bond resolution provisions that authorize Minnesota Housing to withdraw funds in excess of the amounts required to be maintained under the bond resolutions. Net Assets Restricted by Covenant are subject to a covenant with bondholders that the Agency will use the money in General Reserve and money that would otherwise have been released to General Reserve only for the administration and financing of programs in accordance with the policy and purpose of Minnesota Housing's enabling legislation, including the creation of reserves for the payment of bonds and of loans made from the proceeds thereof, and will accumulate and maintain therein such a balance of funds and investments as will be sufficient for the purpose. The Board of the Agency has established investment guidelines for these funds to implement this covenant. Net assets increased 7% to $802.302 million at June 30, 2012

General Reserve and Bond Funds — Revenues Over Expenses

Revenues over expenses of General Reserve and bond funds increased 1,193% from fiscal year 2011 when considering Pool 3 net expenses and the net effect of unrealized gains and losses that resulted from market valuation adjustments to certain investment assets. Ignoring the effects of unrealized gains and losses on investments, total revenues were essentially unchanged. Total expenses, excluding Pool 3, decreased 2% compared to the prior fiscal year. The largest revenue component, interest earned, decreased during fiscal year 2012. Loan interest revenue decreased 7% in fiscal year 2012 as repayments and prepayments decreased the size of the homeownership loan portfolio. That portfolio is in runoff because of the change to the mortgage-backed securities business model during fiscal 2010. Investment interest revenue increased 34% in fiscal year 2012 because of the continued purchase of program mortgage-backed securities.

Administrative reimbursements to General Reserve from bond funds were $18.983 million in fiscal year 2012 compared to $18.053 million during the prior fiscal year. The increase is a result of an increase in the average balance of total assets of the bond funds upon which the administrative reimbursement is calculated, mainly within Homeownership Finance Bonds resolution. General Reserve also incurs overhead expenses to administer state and federal appropriated housing programs. General Reserve received overhead reimbursements of $2.638 million from the State and Federal Appropriated funds to recover certain overhead expenses incurred during fiscal year 2012 compared to $2.680 million during the prior fiscal year. The decrease is mainly a result of decreased overhead reimbursement from State Appropriated during fiscal year 2012 which more than offset an increase from Federal Appropriated. Investment earnings within the State Appropriated fund were insufficient to reimburse $9.008 million of cumulative overhead expense.

General Reserve and Bond Funds — Revenues Over Expenses (continued)

Other fee income to General Reserve and bond funds of $10.341 million decreased by $1.188 million compared to the prior fiscal year. The primary components are fees earned from the federal low income housing tax credit program, Section 8 contract administration, federal Housing Assistance Payments administration, and various loan programs. The decrease is due mainly to a $0.521 million reduction in revenue received as a result of penalties that were imposed on former guaranteed investment contract bidders by the United States Department of Justice and a $0.656 million reduction in Section 8 contract administration fees as a result of the new contract with HUD.

Minnesota Housing recorded $40.875 million of unrealized gains on investment securities during fiscal year 2012, compared to $0.903 million of unrealized losses during the prior year, an increase of $41.778 million.

Interest expense of the bond funds increased 2% to $99.320 million compared to the prior year as a result of a larger amount of long-term outstanding debt during fiscal year 2012.

Combined expenses for loan administration, trustee fees and administrative reimbursements in the bond funds increased by 2% to $24.770 million compared to the prior fiscal year. Of the total administrative reimbursement revenue in General Reserve of $18.983 million, an interfund charge to the bond funds was eliminated for purposes of financial reporting in the Agency-wide financial statements.

Salaries and benefits in General Reserve of $17.541 million decreased 1% from the prior year. Other general operating expense in General Reserve and bond funds decreased 22% to $7.453 million compared to the prior fiscal year, mostly as a result of a decrease in foreclosure-related technical assistance provided to the Agency's nonprofit housing partners. Reductions in carrying value of certain low interest rate deferred loans in the bond funds decreased 68% to $4.640 million. The decrease related to decreased disbursements of deferred subordinated multifamily loans.

Provision for loan loss expense in the bond funds decreased $3.468 million or 15% to $18.959 million. The provision for loan loss expense for the homeownership loan portfolio increased $6.993 million because the average loss per delinquent loan and per foreclosed loan increased. The provision for loan loss expense for the home improvement loan portfolio increased $0.648 million as a result of increased loan delinquencies during the year, a portion of which became inactive loans. The provision for loan loss expense for the homeownership down payment assistance loan portfolio decreased $0.341 million. The provision for loan loss expense for the multifamily loan portfolio decreased $10.863 million mainly due to the implementation of a new loan loss reserve methodology during fiscal 2012. The Agency's previous practice was to assign a general loss provision for newly originated multifamily loans. The new methodology more accurately reflects financial risk on a loan-by-loan basis and responds to economic and market changes that alter the Agency's risk from each loan. Please refer to the loans receivable comments in the Financial Highlights section of the Management's Discussion and Analysis of Financial Condition and Results of Operations for more information regarding loan asset quality.

Non-operating transfers occur as a result of bond sale contributions related to new debt issues, the periodic transfer of assets to maintain the Housing Endowment Fund (Pool 1) requirement, periodic fiscal year end transfers to the Housing Affordability Fund (Pool 3), if any, and periodic transfers from the bond funds of amounts in excess of bond resolution requirements. All bonds in the Single Family fund were defeased in April, 2012. The remaining Single Family assets and liabilities, a net amount of $58.510 million, were transferred to the Residential Housing Finance bond fund and the Housing Investment Fund (Pool 2). During fiscal year 2012, $9.659 million of Pool 1 funds in excess of requirements were transferred to Pool 2. Revenues over expenses in General Reserve that are in excess of the Pool 1 requirement are transferred periodically to Pool 2 for use in housing programs. Pool 2 also recorded a $17.000 million contribution to Pool 3 to be used for highly subsidized housing programs. Revenues over expenses plus non-operating transfers in Pool 2 may be transferred periodically, with approval of the Board, to Pool 3 for use in more highly subsidized housing programs. Board investment guidelines establish required balances for Pool 1 and Pool 2. In addition, Pool 2 made $9.085 million in bond sale contributions, as follows: Homeownership Finance bond fund $8.642

General Reserve and Bond Funds — Revenues Over Expenses (continued)

million and Rental Housing bond resolution $0.443 million. Single Family made a $13.960 million bond sale contribution to the Residential Housing Finance bond fund.

Combined revenues over expenses, including unrealized gains and losses for General Reserve and the bond funds, increased $54.750 million to $50.162 million compared to the prior fiscal year. After removing the effects of unrealized gains and losses and Pool 3 revenues and expenses, the combined revenues over expenses increased 25% to $17.513 million.

Total combined net assets of General Reserve and bond funds increased 7% to $802.302 million as of June 30, 2012 as a result of revenues exceeding expenses for fiscal year 2012. The net assets of each individual bond fund increased, except for Single Family which was extinguished, as a result of net revenues over expenses by fund and non-operating transfers of assets between funds. After the $9.659 million transfer of Pool 1 excesses to Pool 2, the net assets of General Reserve decreased $1.816 million mainly as a result of a $2.308 million decrease in the Pool 1 requirement (which resides in General Reserve) caused by a decrease in the balance of outstanding loans on which its requirement is based, netted against a $0.492 million increase in net assets invested in capital assets.

State and Federal Appropriated Funds — Statement of Net Assets

Assets of the appropriated funds are derived from the appropriation of funds by the State of Minnesota and funds made available to Minnesota Housing by the federal government for housing purposes. Housing preservation and development ordinarily requires appropriations received in the current period to be expended over several future years of planned development. This timing difference is the primary reason for the presence of investments, cash, and cash equivalent assets in the appropriated funds and for the balance of net assets restricted by law.

Investments, cash, and cash equivalents are the largest categories of assets in the appropriated funds. The June 30, 2012 combined balance decreased 14% to $82.363 million as a result of combined disbursements for programs, loans and expenses exceeding the combined appropriations received and revenues during the fiscal year.

Certain state appropriations are expended as housing loans with near- or below-market interest rates, resulting in net loans receivable. At June 30, 2012 State Appropriated fund net loans receivable decreased 3% to $33.970 million, reflecting lower net loan program activity.

Interest receivable in appropriated funds is a function of the timing of interest payments and the general level of interest rates on investments. Interest receivable on appropriated funds at June 30, 2012 decreased 1% to $0.233 million.

Accounts payable and other liabilities represent amounts payable for HUD's share of savings from certain debt refinancing activities and accrued expenses for federal and state housing programs. The balance payable at June 30, 2012 was $2.670 million compared to $2.043 million at June 30, 2011. The increase in accounts payable and other liabilities is largely attributable to a $1.607 increase in State Appropriated housing trust fund accrued year-end expenses partially offset by a $0.870 million decrease in year-end accrued expenses for the federal HOME program.

Interfund payable occurs in the Federal Appropriated fund as a result of overhead expense and indirect cost recoveries owed to General Reserve. Interfund payable occurs in the State Appropriated fund because of accrued overhead expense payable to General Reserve. At June 30, 2012 the combined net interfund payable was $0.606 million.

At June 30, 2012 the balance of funds held for others was $3.325 million. In February 2011 the Agency issued nonprofit housing bonds under an indenture of trust. The indenture permits capital funding for long-term homeless households and other purposes through the issuance of Agency bonds secured solely by state appropriations. The proceeds of these bonds provide capital funding for permanent supportive housing in five multifamily housing developments. This debt is not a general obligation of the Agency and is not payable from any funds or assets of the Agency other than the appropriations the Agency expects to receive from the State General Fund pursuant to a standing appropriation made by the Legislature in 2008. The bonds are not

State and Federal Appropriated Funds — Statement of Net Assets

recorded as a liability by the Agency since they are not an obligation of the Agency (see Appropriation Debt Obligation in notes to financial statements). The balance of the undisbursed proceeds of the issued bonds in the amount of $2.954 million is recorded as funds held for others. Excess federal housing assistance payments received for administration of the Section 8 program and the interest income earned on those unexpended funds in the amount of $0.299 million is also recorded as funds held for others.

All of the net assets of the appropriated funds are restricted by law for use with housing programs only and are not pledged or available to secure the bonds or other obligations of Minnesota Housing or its general obligation pledge in respect thereof. The combined net assets of the appropriated funds decreased to $110.578 million as of June 30, 2012, reflecting combined revenues less than disbursements and expenses during fiscal year 2012.

State and Federal Appropriated Funds — Revenues Over Expenses

State and Federal Appropriated funds are recorded as revenue in the period in which such appropriations are earned. Funds are spent for eligible program activities as defined by Minnesota Housing, the State of Minnesota or agencies of the federal government. Unexpended appropriations are invested and the interest income on the investments is recorded as it is earned, except for interest earned on certain unexpended federal appropriations, which is recorded as funds held for others. Similarly, interest income on certain State Appropriated fund loan receivables is recorded as it is earned.

The largest revenue category is appropriations received, and is a function of the fiscal, legislative, and political environment of the State of Minnesota and the federal government. The combined appropriations received decreased from $303.615 million in fiscal year 2011 to $243.882 million in fiscal year 2012. Federal appropriations received decreased by $52.771 million, mostly due to a $56.047 million decrease in funding for the National Stabilization Program (NSP), the Tax Credit Assistance Program (TCAP), and the Section 1602/ Exchange Program. These decreases were partially offset by a $3.958 million increase in National Foreclosure Mitigation Counseling program and Housing Assistance Payments program funds. State appropriations received decreased by $6.962 million, due to decreased appropriations received for almost all state-funded programs.

Interest income from investments decreased as investment yields in general were below previous levels and the average balance of investment assets was less than the prior fiscal year. The combined interest income from investments decreased 30% to $1.111 million for fiscal year 2012.

Loan interest income from State Appropriations loan assets continues to be minimal at $0.171 million as relatively few loans bear interest.

Fees earned and other income in the amount of $1.521 million were recorded in the State Appropriated fund during fiscal year 2012. This consisted mainly of private donations and interagency transfers of funds to support certain state housing programs. Fees earned and other income of $0.013 million were recorded in the Federal Appropriation fund in fiscal year 2012. These were Energy Saver Rebate Program funds received from a Minnesota state agency to reimburse homeowners for qualifying energy improvements.

Unrealized gains or losses on investments are recorded to reflect current market valuations of investments, and may be reversed over time as investments are held. Combined unrealized gains of $0.768 million were recorded at June 30, 2012 compared to $0.531 million unrealized losses at June 30, 2011.

Administrative reimbursements to General Reserve of overhead expenses to administer State Appropriated fund programs decreased 33% to $0.802 million compared to the prior fiscal year. The Agency incurs the overhead expense in General Reserve. General Reserve is reimbursed for these overhead expenses by the State Appropriated fund to the extent of investment earnings on unexpended state appropriations. During fiscal year 2012 investment earnings in the State Appropriated fund were insufficient to reimburse $9.008 million of overhead expenses incurred in General Reserve during this fiscal year and unreimbursed expenses for prior fiscal years. Combined appropriations disbursed decreased 19% to $230.921 million compared to the prior fiscal year, reflecting State Appropriations disbursed of $26.111 million and federal appropriations disbursed of $204.810 million.

State and Federal Appropriated Funds — Revenues Over Expenses (continued)

Decreased expenditures of State Appropriated funds for fully-reserved below-market and zero-percent interest rate loans resulted in higher expense from reductions in carrying value of certain loans. Net reductions of carrying value decreased 59% to $13.498 million compared to the prior fiscal year.

Other general operating expenses in the State Appropriation fund represent fees for professional and technical support to implement and administer certain housing programs. Other general operating expenses in the State Appropriation fund decreased 14% to $1.614 million at June 30, 2012. Other general operating expenses in the Federal Appropriation fund of $0.013 million are homeowner reimbursement for qualifying energy improvements from the Energy Saver Rebate Program.

Combined revenues were less than combined expenditures of the appropriated funds by $0.888 million at June 30, 2012. Ultimately, the entire State and Federal Appropriated funds' net assets will be expended for housing programs.

Significant Long-Term Debt Activity

Minnesota Housing issues a significant amount of bonds, having outstanding at June 30, 2012 long-term bonds totaling $2,164.4 million. Bond proceeds and related revenues are held by trustees, who are responsible for administration of bond resolution requirements including payment of debt service. The bond resolutions may require funding debt service reserve accounts and insurance reserve accounts. At June 30, 2012, amounts held by the respective trustees in principal, interest, redemption, and reserve accounts represented full funding of those requirements as of that date.

Minnesota Housing continually investigates and utilizes financing and debt management techniques designed to achieve its goals of reducing interest expense and efficiently utilizing bonding authority while managing risk and responding to changing capital markets. During fiscal year 2012, Minnesota Housing issued eleven series of bonds and notes aggregating $309.4 million, compared to the issuance of eleven series totaling $1,391.1 million the previous fiscal year. Long-term debt issuance to finance mortgage lending was again aided this year by the United States Treasury's New Issue Bond Program. Long-term bonds are issued as capital is needed for program purposes and as opportunities arise to economically refund outstanding bonds. Short-term bonds and notes and other indebtedness are issued to preserve tax-exempt bonding authority for future program use and to warehouse purchases of mortgage-backed securities in advance of permanent financing.

A total of $698.0 million in principal payments and $99.3 million of interest payments were made during fiscal year 2012. Of the total principal payments, $265.9 million retired short-term debt and $380.8 million were payments made prior to the scheduled maturity date using a combination of optional and special redemption provisions.

Most of the bonds issued by Minnesota Housing bear interest that is not includable in gross income for federal and State of Minnesota income taxation, in accordance with requirements of the federal Internal Revenue Code and Treasury regulations governing either qualified mortgage bonds or bonds issued to provide qualified residential rental projects. Minnesota Housing's ability to issue tax-exempt debt is limited by its share of the state's allocation of private activity volume cap, which is established by Minnesota statutes. Minnesota Housing's ability to issue tax-exempt debt is also limited by a provision in the Internal Revenue Code (commonly known as the 10year rule) that prohibits refunding of mortgage repayments and prepayments received more than ten years after the date of issuance of the bonds that financed such mortgage loans.

While most of the Agency's bonds are tax-exempt, taxable bonds have also been issued to supplement limited tax-exempt authority in order to meet demand for mortgage loans. Taxable bonds may also be issued to finance lending programs where federal tax-exempt bond restrictions are inconsistent with program goals. Variable-rate bonds and interest-rate swaps were incorporated into Minnesota Housing's financings from fiscal year 2003 through fiscal year 2010, enabling the Agency to provide below-market mortgage financing at synthetically fixed interest rates. Interest-rate swaps help to hedge the mismatch between fixed-rate loans and variable-rate bonds. (See Interest Rate Swaps under the notes to the financial statements for further discussion of interest-rate swaps and their risks.)

Significant Long-Term Debt Activity (continued)

The Agency also had outstanding at June 30, 2012 certain conduit bonds and appropriation-backed bonds which are not obligations of the Agency and which are discussed in notes to the financial statements. Board policy governs the process Minnesota Housing follows to issue and manage debt. State statute limits total outstanding bonds and notes of Minnesota Housing to $5.0 billion.

At June 30, 2012 Minnesota Housing's issuer credit ratings were "AA+" and "Aa1" from Standard and Poor's Ratings Services and Moody's Investors Service, Inc., respectively. Minnesota Housing's credit ratings are separate from, and are not directly dependent on, ratings on debt issued by the State of Minnesota. Ongoing reporting to and communications with the bond rating agencies are priorities for the Agency.

Significant Factors that May Affect Financial Condition and/or Operations

Legislative Actions

Traditionally the primary focus of even-numbered year state legislative sessions is authorization of a package of capital investments; this held true for the 2012 session. The 2012 Minnesota Legislature authorized the agency to issue $30 million in appropriation bonds for capital projects for 3 specific purposes: acquisition, rehabilitation and replacement of housing in communities impacted by the foreclosure crisis, preservation of federally assisted rental housing and development of permanent supportive housing. The bonds are known as housing infrastructure bonds. A standing annual appropriation of up to $2.2 million for the debt service on the $30 million in bonds was provided for state fiscal years 2013 through 2035. The bonds are not a debt of the state and the full faith and credit and taxing authority of the state may not be pledged to the bonds but the appropriations may be pledged to the payment of the bonds. In addition, the legislature appropriated $5.5 million in general obligation bond proceeds for the rehabilitation of public housing properties.

This is the first non-biennial budget setting session since 2008 that no further reductions were made to the Agency's base budget.

Nationwide Foreclosure Crisis

The nationwide housing foreclosure crisis continued to impact borrowers in Minnesota Housing's loan portfolio despite the Agency's practice of providing mortgage products designed to promote sustainable homeownership. In fiscal year 2012 loan delinquencies and foreclosures were slightly higher for the homeownership portfolio and loan delinquencies were also slightly higher for the home improvement portfolio, as described in Management's Discussion and Analysis of Financial Condition and Results of Operations–Financial Highlights. Economic conditions and their future impact on the Agency's loan portfolios are unpredictable. The Agency regularly reviews loan portfolio performance and records additional loss reserves when justified by actual delinquency, foreclosure and property loss experience. The Agency additionally utilizes several loss mitigation techniques to assist homeowners with avoiding foreclosure and to minimize Agency losses on foreclosed loans.

Liquidity Facilities for Variable Rate Bonds

Standby liquidity facilities for certain variable rate bonds are scheduled to expire in July and August of 2012. Those facilities were successfully replaced in July 2012.

Additional Information

Questions and inquiries may be directed to Mr. Bill Kapphahn at Minnesota Housing Finance Agency, 400 Sibley Street, Suite 300, St. Paul, MN 55101 (651-2967608 or 800-6573769 or if T.T.Y. 651-2972361)

MINNESOTA HOUSING FINANCE AGENCY
Agency-wide Financial Statements
Statement of Net Assets (in thousands)
As of June 30, 2012 (with comparative totals as of June 30, 2011)

		Agency-wide Total as of June 30, 2012	Agency-wide Total as of June 30, 2011
Assets	Cash and cash equivalents	$ 432,682	$ 527,605
	Investments- program mortgage-backed securities	667,282	356,227
	Investment securities- other	217,519	565,772
	Loans receivable, net	1,845,098	2,065,339
	Interest receivable on loans	14,816	14,142
	Interest receivable on investments	1,480	3,459
	Deferred loss on interest rate swap agreements	39,634	30,815
	FHA/VA insurance claims, net	9,321	7,761
	Real estate owned, net	15,566	24,604
	Unamortized bond issuance costs	13,354	13,307
	Capital assets, net	1,937	1,445
	Other assets	1,769	3,850
	Total assets	$3,260,458	$3,614,326
Liabilities	Bonds payable, net	$2,170,089	$2,555,414
	Interest payable	42,987	46,799
	Interest rate swap agreements	39,634	30,815
	Deferred revenue- service release fees	5,477	3,634
	Accounts payable and other liabilities	12,504	17,062
	Funds held for others	76,887	96,996
	Total liabilities	2,347,578	2,750,720
	Commitments and contingencies		
Net Assets	Restricted by bond resolution	331,630	281,199
	Restricted by covenant	468,735	469,496
	Restricted by law	110,578	111,466
	Invested in capital assets	1,937	1,445
	Total net assets	912,880	863,606
	Total liabilities and net assets	$3,260,458	$3,614,326

See accompanying notes to financial statements.

MINNESOTA HOUSING FINANCE AGENCY
Agency-wide Financial Statements
Statement of Activities (in thousands)
Year ended June 30, 2012 (with comparative totals for year ended of June 30, 2011)

		Agency-wide Total for the Year Ended June 30, 2012	Agency-wide Total for the Year Ended June 30, 2011
Revenues	Interest earned on loans	$115,394	$123,823
	Interest earned on investments- program mortgage-backed securities	20,827	7,814
	Interest earned on investments- other	15,068	19,691
	Appropriations received	243,882	303,615
	Administrative reimbursement	1,837	1,484
	Fees earned and other income	11,875	17,371
	Unrealized gains on investments	41,643	(1,434)
	Total revenues	450,526	472,364
Expenses	Interest	99,320	97,189
	Loan administration and trustee fees	5,855	6,203
	Salaries and benefits	17,541	17,716
	Other general operating	9,080	15,037
	Appropriations disbursed	230,921	286,572
	Reduction in carrying value of certain low interest rate deferred loans	18,138	46,931
	Provision for loan losses	20,397	24,158
	Total expenses	401,252	493,806
	Change in net assets	49,274	(21,442)
	Total net assets, beginning of year	863,606	885,048
Net Assets	Total net assets, end of year	$912,880	$863,606

See accompanying notes to financial statements

MINNESOTA HOUSING FINANCE AGENCY
Fund Financial Statements
Statement of Net Assets (in thousands)
Proprietary Funds
As of June 30, 2012 (with comparative totals as of June 30, 2011)

			Bond Funds		
		General Reserve	Rental Housing	Residential Housing Finance	Single Family
Assets	Cash and cash equivalents	$90,544	$ 28,907	$ 214,155	$ -
	Investments- program mortgage-backed securities	-	-	94,951	-
	Investment securities- other	5,204	14,186	177,154	-
	Loans receivable, net	-	167,823	1,628,762	-
	Interest receivable on loans and program mortgage-backed securities	-	878	11,987	-
	Interest receivable on investments	44	362	853	-
	Deferred loss on interest rate swap agreements	-	-	39,634	-
	FHA/VA insurance claims, net	-	-	9,321	-
	Real estate owned, net	-	-	15,566	-
	Unamortized bond issuance costs	-	1,274	8,385	-
	Capital assets, net	1,937	-	-	-
	Other assets	1,084	4	53	-
	Total assets	$98,813	$213,434	$2,200,821	$ -
Liabilities	Bonds payable, net	$ -	$104,667	$1,503,509	$ -
	Interest payable	-	1,745	32,062	-
	Interest rate swap agreements	-	-	39,634	-
	Deferred revenue- service release fees	-	-	5,477	-
	Accounts payable and other liabilities	4,573	3,215	1,933	-
	Interfund payable (receivable)	565	(1,182)	1	-
	Funds held for others	73,562	-	-	-
	Total liabilities	78,700	108,445	1,582,616	-
	Commitments and contingencies				
Net Assets	Restricted by bond resolution	-	104,989	167,646	-
	Restricted by covenant	18,176	-	450,559	-
	Restricted by law	-	-	-	-
	Invested in capital assets	1,937	-	-	-
	Total net assets	20,113	104,989	618,205	-
	Total liabilities and net assets	$98,813	$213,434	$2,200,821	$ -

See accompanying notes to financial statements

Bond Funds		Appropriated Funds			
Homeownership Finance	Multifamily Housing	State Appropriated	Federal Appropriated	Total as of June 30, 2012	Total as of June 30, 2011
$ 36,355	$ 1,198	$ 59,399	$ 2,124	$ 432,682	$ 527,605
572,331	-	-	-	667,282	356,227
135	-	13,632	7,208	217,519	565,772
-	14,543	33,970	-	1,845,098	2,065,339
1883	55	13	-	14,816	15,388
1	-	154	66	1,480	2,213
-	-	-	-	39,634	30,815
-	-	-	-	9,321	7,761
-	-	-	-	15,566	24,604
3,534	161	-	-	13,354	13,307
-	-	-	-	1,937	1,445
15	-	-	613	1,769	3,850
$614,254	$15,957	$107,168	$10,011	$3,260,458	$3,614,326
$546,913	$15,000	$-	$-	$2,170,089	$2,555,414
9,142	38	-	-	42,987	46,799
-	-	-	-	39,634	30,815
-	-	-	-	5,477	3,634
38	75	2,170	500	12,504	17,062
10	-	193	413	-	-
-	-	3,026	299	76,887	96,996
556,103	15,113	5,389	1,212	2,347,578	2,750,720
58,151	844	-	-	331,630	281,199
-	-	-	-	468,735	469,496
-	-	101,779	8,799	110,578	111,466
-	-	-	-	1,937	1,445
58,151	844	101,779	8,799	912,880	863,606
$614,254	$15,957	$107,168	$10,011	$3,260,458	$3,614,326

MINNESOTA HOUSING FINANCE AGENCY
Fund Financial Statements
Statement of Revenues, Expenses, and Changes in Net Assets (in thousands)
Proprietary Funds
Year ended June 30, 2012 (with comparative totals for year ended of June 30, 2011)

			Bond Funds	
		General Reserve	Rental Housing	Residential Housing Finance
Revenues	Interest earned on loans	$ -	$ 13,152	$ 95,204
	Interest earned on investments- program mortgage-backed securities	-	-	791
	Interest earned on investments- other	63	2,274	10,302
	Appropriations received	-	-	-
	Administrative reimbursement	21,622	-	-
	Fees earned and other income	8,865	505	971
	Unrealized gains (losses) on investments	70	299	7,744
	Total revenues	30,620	16,230	115,012
Expenses	Interest	-	7,345	71,036
	Loan administration and trustee fees	-	171	5,154
	Administrative reimbursement	-	1,584	13,547
	Salaries and benefits	17,541	-	-
	Other general operating	5,236	-	2,217
	Appropriations disbursed	-	-	-
	Reduction in carrying value of certain low interest rate deferred loans	-	(56)	4,696
	Provision for loan losses	-	(2,203)	20,860
	Total expenses	22,777	6,841	117,510
	Revenues over (under) expenses	7,843	9,389	(2,498)
Other changes	Non-operating transfer of assets between funds	(9,659)	443	73,044
	Change in net assets	(1,816)	9,832	70,546
Net Assets	Total net assets, beginning of year	21,929	95,157	547,659
	Total net assets, end of year	$20,113	$104,989	$618,205

See accompanying notes to financial statements.

Bond Funds			Appropriated Funds			
Single Family	Homeownership Finance	Multifamily Housing	State Appropriated	Federal Appropriated	Total for the Year Ended June 30, 2012	Total for the Year Ended June 30, 2011
$ 6,212	$ -	$655	$ 171	$ -	$115,394	$123,823
-	20,036	-	-	-	20,827	7,814
1,241	59	18	731	380	15,068	19,691
-	-	-	40,839	203,043	243,882	303,615
-	-	-	-	-	21,622	20,733
-	-	-	1,521	13	11,875	17,371
(26)	32,791	(3)	747	21	41,643	(1,434)
7,427	52,886	670	44,009	203,457	470,311	491,613
4,534	15,949	456	-	-	99,320	97,189
292	168	2	68	-	5,855	6,203
979	2,776	97	802	-	19,785	19,249
-	-	-	-	-	17,541	17,716
-	-	-	1,614	13	9,080	15,037
-	-	-	26,111	204,810	230,921	286,572
-	-	-	13,498	-	18,138	46,931
227	-	75	1,438	-	20,397	24,158
6,032	18,893	630	43,531	204,823	421,037	513,055
1,395	33,993	40	478	(1,366)	49,274	(21,442)
(72,470)	8,642	-	-	-	-	-
(71,075)	42,635	40	478	(1,366)	49,274	(21,442)
71,075	15516	804	101,301	10,165	863,606	885,048
$ -	$58,151	$844	$101,779	$ 8,799	$912,880	$863,606

MINNESOTA HOUSING FINANCE AGENCY
Fund Financial Statements
Statement of Cash Flows (in thousands)
Proprietary Funds
Year ended June 30, 2012 (with comparative totals for year ended June 30, 2011)

			Bond Funds	
		General Reserve	Rental Housing	Residential Housing Finance
Cash flows from operating activities	Principal repayments on loans and program mortgage-backed securities	$ -	$ 30,110	$ 169,203
	Investment in loans/loan modifications and program mortgage-backed securities	-	(11,536)	(109,740)
	Interest received on loans and program mortgage-backed securities	-	10,565	91,734
	Other operating	-	-	(2,144)
	Fees and other income received	9,104	505	6,329
	Salaries, benefits and vendor payments	(22,577)	(139)	(9,085)
	Appropriations received	-	-	-
	Appropriations disbursed	-	-	-
	Administrative reimbursement from/to funds	21,547	(1,584)	(13,547)
	Deposits into funds held for others	31,297	-	-
	Disbursements made from funds held for others	(36,087)	-	-
	Interfund transfers and other assets	(1,593)	(1,182)	1,479
	Net cash provided (used) by operating activities	1,691	26,739	134,229
Cash flows from noncapital financing activities	Proceeds from sale of bonds and notes	-	8,965	178,538
	Principal repayment on bonds and notes	-	(62,295)	(556,940)
	Interest paid on bonds and notes	-	(7,719)	(75,124)
	Financing costs paid related to bonds issued	-	(134)	(2,170)
	Agency contribution to program funds	-	443	610
	Transfer of cash between funds	(9,631)	-	(26,654)
	Net cash provided (used) by noncapital financing activities	(9,631)	(60,740)	(481,740)
Cash flows from investing activities	Investment in real estate owned	-	-	(6,641)
	Interest received on investments	925	1,759	5,012
	Proceeds from sale of mortgage insurance claims/real estate owned	-	-	78,889
	Proceeds from maturity, sale or transfer of investment securities	40,020	90,997	692,442
	Purchase of investment securities	-	(63,374)	(445,307)
	Purchase of loans between funds	-	(12,195)	14,190
	Net cash provided by investing activities	40,945	17,187	338,585
	Net increase (decrease) in cash and cash equivalents	33,005	(16,814)	(8,926)
Cash and cash equivalents	Beginning of year	57,539	45,721	223,081
	End of year	$ 90,544	$ 28,907	$ 214,155

Bond Funds			Appropriated Funds			
Single Family	Homeownership Finance	Multifamily Housing	State Appropriated	Federal Appropriated	Total for the Year Ended June 30, 2012	Total for the Year Ended June 30, 2011
$ 10,884	$ 24,801	$ -	$ 2,872	$ -	$ 237,870	$ 197,409
(23)	(234,640)	(15,000)	(14,466)	-	(385,405)	(439,265)
5,285	18,640	654	171	-	127,049	126,454
-	-	-	(1,615)	(13)	(3,772)	(9,227)
-	-	-	1,521	13	17,472	20,948
(316)	(188)	73	(68)	-	(32,300)	(29,839)
-	-	-	40,839	204,059	244,898	307,142
-	-	-	(24,637)	(206,036)	(230,673)	(291,205)
(979)	(2,776)	(97)	(786)	-	1,778	1,543
-	-	-	-	127	31,424	53,821
-	-	-	(15,467)	(127)	(51,681)	(45,350)
482	(2)	-	138	-	(678)	(997)
15,333	(194,165)	(14,370)	(11,498)	(1,977)	(44,018)	(108,566)
-	152,127	-	-	-	339,630	2,104,183
(97,505)	(6,230)	-	-	-	(722,970)	(2,251,945)
(6,957)	(10,438)	(452)	-	-	(100,690)	(96,654)
1,164	(1,959)	-	-	-	(3,099)	(3,382)
(2,742)	1,689	-	-	-	-	-
36,285	-	-	-	-	-	-
(69,755)	135,189	(452)	-	-	(487,129)	(247,798)
(611)	-	-	-	-	(7,252)	(5,064)
753	1,232	23	882	174	10,760	19,526
4,347	-	-	-	-	83,236	76,729
30,450	10,304	13,924	54,098	14,951	947,186	1,902,689
(18,605)	(9,940)	(13,450)	(34,130)	(12,900)	(597,706)	(1,756,617)
-	-	-	(1,995)	-	-	-
16,334	1,596	497	18,855	2,225	436,224	237,263
(38,088)	(57,380)	14,325	7,357	248	(94,923)	(119,101)
38,088	93,735	15,523	52,042	1,876	527,605	646,706
$ -	$ 36,355	$ 1,198	$ 59,399	$ 2,124	$ 432,682	$ 527,605

(Continued)

MINNESOTA HOUSING FINANCE AGENCY
Fund Financial Statements
Statement of Cash Flows (in thousands)
Proprietary Funds (continued)
Year ended June 30, 2012 (with comparative totals for year ended June 30, 2011)

Reconciliation of revenue over (under) expenses to net cash provided (used) by operating activities

	General Reserve	Bond Funds: Rental Housing	Bond Funds: Residential Housing Finance
Revenues over (under) expenses	$ 7,843	$ 9,389	$ (2,498)
Adjustments to reconcile revenues over (under) expenses to net cash provided (used) by operation activities:			
Amortization of premiums (discounts) and fees on loans and program mortgage-backed securities	-	(104)	896
Depreciation	1,286	-	-
Realized losses (gains) on sale of securities, net	175	(737)	(3,076)
Unrealized losses (gains) on securities, net	(70)	(299)	(7,744)
Provision for loan losses	-	(2,203)	20,860
Reduction in carrying value of certain low interest rate and/or deferred loans	-	(56)	4,696
Capitalized interest on loans and real estate owned	-	-	(6,139)
Interest earned on investments	(238)	(2,038)	(7,027)
Interest expense on bonds and notes	-	7,345	71,036
Changes in assets and liabilities:			
Decrease (increase) in loans receivable and program mortgage-backed securities, excluding loans transferred between funds	-	18,574	59,463
Decrease (increase) in interest receivable on loans	-	66	982
Increase (decrease) in arbitrage rebate liability	-	(2,048)	(199)
Increase (decrease) in accounts payable	(933)	30	1,494
Increase (decrease) in interfund payable, affecting operating activities only	(64)	(1,181)	1,376
Increase (decrease) in funds held for others	(4,790)	-	-
Other	(1,518)	1	109
Total	(6,152)	17,350	136,727
Net cash provided (used) by operating activities	$ 1,691	$26,739	$134,229

See accompanying notes to financial statements

Bond Funds			Appropriated Funds			
Single Family	Homeownership Finance	Multifamily Housing	State Appropriated	Federal Appropriated	Total for the Year Ended June 30, 2012	Total for the Year Ended June 30, 2011
$ 1,395	$ 33,993	$ 40	$ 478	$(1,366)	$ 49,274	$ (21,442)
(753)	487	-	-	-	526	1,414
-	-	-	-	-	1,286	1,540
(345)	(23)	1	75	(179)	(4,109)	(199)
26	(32,791)	3	(747)	(21)	(41,643)	1,434
227	-	75	1,438	-	20,397	24,158
-	-	-	13,498	-	18,138	46,931
(336)	-	-	-	-	(6,475)	(8,576)
(634)	(36)	(19)	(806)	(201)	(10,999)	(18,800)
4,534	15,949	456	-	-	99,320	97,189
10,861	(209,839)	(15,000)	(11,594)	-	(147,535)	(241,856)
162	(1,883)	(1)	-	-	(674)	899
(262)	-	75	-	-	(2,509)	387
(28)	(27)	-	1,902	(1,275)	1,238	(2,540)
(63)	(2)	-	(275)	48	(161)	(9)
-	-	-	(15,467)	-	(20,257)	8,471
549	7	-	-	1,017	165	2,433
13,938	(228,158)	(14,410)	(11,976)	(611)	(93,292)	(87,124)
$15,333	$(194,165)	$(14,370)	$(11,498)	$(1,977)	$ (44,018)	$(108,566)

Nature of Business and Fund Structure

The Minnesota Housing Finance Agency (the Agency or Minnesota Housing) was created in 1971 by the Minnesota legislature through the enactment of Minnesota Statutes, Chapter 462A, which has been amended from time to time. The Agency was established to facilitate the construction and rehabilitation of housing in Minnesota for families of low- and moderate-income by providing mortgage loans, development loans, and technical assistance to qualified housing sponsors. The Agency, as a special purpose agency engaged in business-type activities, is a component unit of the State of Minnesota, and is reflected as a proprietary fund in the state's comprehensive annual financial report. The Agency receives appropriations from the state legislature, substantially all of which are used to make loans or grants under specified programs. The Agency also receives funds from the federal government or other entities for similar program purposes.

The Agency is authorized to issue bonds and notes to fulfill its corporate purposes up to a total outstanding amount of $5.0 billion and to incur other indebtedness. None of the bonds, notes or other indebtedness is a debt of the State of Minnesota or any political subdivision thereof.

The following describes the funds maintained by the Agency, which are included in this report, all of which conform to the authorizing legislation and bond resolutions:

General Reserve

General Reserve was established in fulfillment of the pledge by the Agency of its full faith and credit to the payment of its general obligation bonds in its bond resolutions. Administrative costs of the Agency and multifamily development escrow receipts and related disbursements are recorded in this account. The net assets of General Reserve are available to support the following funds which are further described below: Rental Housing, Residential Housing Finance, Single Family, Homeownership Finance and Multifamily Housing.

Rental Housing

Activities relating to bond-financed multifamily housing programs are maintained under the Rental Housing bond resolution. Loans are generally secured by first mortgages on real property. The Rental Housing bond resolution prescribes the application of bond proceeds, debt service requirements of the bond indebtedness, permitted investments, and eligible loans to be financed from the bond proceeds.

Residential Housing Finance

Included within Residential Housing Finance are the bond funds, which include bonds issued and outstanding under the Residential Housing Finance bond resolution; limited obligation notes issued under separate resolutions; the Alternative Loan Fund which consists of the Housing Investment Fund (Pool 2), the Housing Affordability Fund (Pool 3); and limited obligation note accounts. All of these funds are restricted by a covenant with bondholders as to their use.

The bond resolution within Residential Housing Finance was the principal source of financing for bond-financed homeownership programs from fiscal year 2002 until fiscal year 2010 (see Homeownership Finance below). Bonds were issued for the purpose of funding purchases of single family first mortgage loans, mortgage-backed securities backed by single family mortgage loans, some related entry cost housing assistance loans, and subordinated home improvement loans. The majority of the single family first mortgage loans financed by these bond issues are insured by private mortgage insurers or the Federal Housing Administration (FHA) or guaranteed by the U.S. Department of Veterans Affairs (VA) or the U.S. Department of Agriculture Rural Development (RD). Assets of the bonds issued and outstanding under the resolution are pledged to the repayment of Residential Housing Finance bonds, except that the limited obligation debt is issued under separate resolutions and is secured by the proceeds thereof.

The Alternative Loan Fund has been established in Residential Housing Finance and residing therein are three subfunds: Housing Investment Fund (Pool 2), Housing Affordability Fund (Pool 3) and limited obligation note accounts. Except for funds in limited obligation note accounts, funds deposited in the Alternative Loan Fund would otherwise be available to be transferred to General Reserve. The Alternative Loan Fund is not pledged to the payment of the Residential Housing Finance bonds or any other debt obligation of the Agency and, to the extent that funds are available therein, is available to honor the general obligation pledge

Nature of Business and Fund Structure (continued)

of the Agency.

Assets of the Housing Investment Fund (Pool 2) consist of investment quality housing loans, as defined by the Agency, and investment grade securities. During fiscal year 2012 this fund provided capital for several Agency programs including its home improvement loan program, its multifamily first-mortgage loan program, warehousing purchases of mortgage-backed securities secured by single family first mortgage loans, tax credit bridge loans, loans to partner organizations to acquire, rehabilitate and sell foreclosed homes and to develop new affordable housing, loans to facilitate transfers of ownership of manufactured home parks to resident owners, contributions for limited obligation note expenses, and bond sale contributions. The fund may also provide interim financing for construction and rehabilitation of single family housing and may be used to advance funds to retire Agency high interest-rate debt.

Assets of the Housing Affordability Fund (Pool 3) consist of investment-grade securities when not utilized for program purposes. Program purposes include, but are not limited to: no-interest loans; loans at interest rates substantially below market, high risk loans, deferred loans, revolving funds, and grants. During fiscal year 2012 funds from Pool 3 were used for entry cost assistance for first-time homebuyers, below-market interim financing for construction and rehabilitation of single family housing, capital costs and rental assistance for permanent supportive housing, and deferred, subordinated multifamily loans.

The Residential Housing Finance bond resolution prescribes the application of bond proceeds, debt service requirements of the bond indebtedness, permitted investments, and eligible loans to be financed from the bond proceeds.

The limited obligation debt resolutions prescribe the application of debt proceeds and permitted investments.

Single Family

Bonds issued for homeownership programs were issued under Single Family until 2002 when the Agency began using Residential Housing Finance. All outstanding bonds were defeased in April, 2012. All remaining assets and liabilities were transferred to Residential Housing Finance as of June 30, 2012.

Homeownership Finance

This bond resolution was adopted for the purpose of issuing mortgage revenue bonds under the United States Treasury's Single Family New Issue Bond Program (NIBP), although non-NIBP mortgage revenue bonds may also be issued if they meet resolution requirements. Bonds issued under this resolution fund mortgage-backed securities backed by single family mortgage loans. These securities are guaranteed as to payment of principal and interest by either the Government National Mortgage Association or the Federal National Mortgage Association.

Multifamily Housing

This bond resolution was adopted for the purpose of issuing multifamily housing bonds under the United States Treasury's Multifamily New Issue Bond Program. Bonds were issued for a rental housing project.

State Appropriated

The State Appropriated fund was established to account for funds received from the Minnesota legislature which are to be used for programs for low- and moderate-income persons and families in the form of low-interest loans, no-interest deferred loans, debt service and other costs associated with appropriation-backed bonds, and other housing-related program costs. The net assets of the State Appropriated fund are not pledged or available to secure bondholders or creditors of the Agency.

Federal Appropriated

The Federal Appropriated fund was established to account for funds received from the federal government which are to be used for programs for low- and moderate-income persons and families in the form of no-interest deferred loans and grants in support of foreclosure counseling and remediation efforts, assistance to tax credit developments and other housing-related program costs. The net assets of the Federal Appropriated fund are not pledged or available to secure bondholders or creditors of the Agency.

Summary of Significant Accounting Policies

The following is a summary of the more significant accounting policies.

Basis of Accounting

The Agency's financial statements have been prepared on the basis of the proprietary fund concept which pertains to financial activities that operate in a manner similar to private business enterprises and are financed through fees and charges assessed primarily to the users of the services.

Generally Accepted Accounting Principles

The Agency has adopted Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting.* The Agency has applied all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements, Accounting Principles Board (APB) opinions, and Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. Although the Agency has the option to apply the aforementioned private sector guidance issued after November 30, 1989, subject to the same limitations, the Agency has elected not to do so.

Since the business of the Agency is essentially that of a financial institution having a business cycle greater than one year, the statement of net assets is not presented in a classified format.

New Accounting Pronouncements

In November 2010 the GASB issued Statement No 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments,* were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements. The provisions of GASB Statement No. 61 are effective for the Agency's fiscal year ended June 30, 2012. The adoption of this statement did not affect the Agency's financial statements.

In June 2011 the GASB issued Statement No 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements,* introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. Concepts Statement 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments,* and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The provisions of this Statement are effective for the Agency's fiscal year ending June 30, 2013. The Agency has not yet determined the effect that the adoption of this Statement will have on its financial statements.

In June 2011 the GASB issued Statement No 64 Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53. Some governments have entered into interest rate swap agreements and commodity swap agreements in which a swap counterparty, or the swap counterparty's credit support provider, commits or experiences either an act of default or a termination event as both are described in the swap agreement. Many of those governments have replaced their swap counterparty, or swap counterparty's credit support providers, either by amending existing swap agreements

Summary of Significant Accounting Policies (continued)

or by entering into new swap agreements. When these swap agreements have been reported as hedging instruments, questions have arisen regarding the application of the termination of hedge accounting provisions in Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments.* Those provisions require a government to cease hedge accounting upon the termination of the hedging derivative instrument, resulting in the immediate recognition of the deferred outflows of resources or deferred inflows of resources as a component of investment income. The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The provisions of this statement were implemented for the Agency's fiscal year ended June 30, 2012. The adoption of this statement did not affect the Agency's financial statements.

In March 2012 the GASB issued Statement No 65 Items Previously Reported as Assets and Liabilities This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. Concepts Statement No. 4, *Elements of Financial Statements,* introduced and defined the elements included in financial statements, including deferred outflows of resources and deferred inflows of resources. In addition, Concepts Statement 4 provides that reporting a deferred outflow of resources or a deferred inflow of resources should be limited to those instances identified by the Board in authoritative pronouncements that are established after applicable due process. Prior to the issuance of this Statement, only two such pronouncements have been issued. Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments,* requires the reporting of a deferred outflow of resources or a deferred inflow of resources for the changes in fair value of hedging derivative instruments, and Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, requires a deferred inflow of resources to be reported by a transferor government in a qualifying service concession arrangement. This Statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement 4. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations. The provisions of this Statement are effective for the Agency's fiscal year ending June 30, 2014. The Agency has not yet determined the effect that the adoption of this Statement will have on its financial statements.

Cash and Cash Equivalents

Cash equivalents may include commercial paper, money market funds, repurchase agreements, State investment pool holdings and any other investments, primarily U.S. treasury and agency securities that have 90 or less days remaining to maturity at the time of purchase. Investment agreements are also classified as cash and cash equivalents.

Investments- Program Mortgage-backed Securities and Investment Securities- Other

The Agency carries all investment securities at fair market value. Unrealized gains and losses on investment securities resulting from changes in market valuation are recorded as revenue. However, unrealized gains and losses on investments of multifamily development escrow funds resulting from changes in market valuation are recorded as funds held for others. Investments- program mortgage-backed securities, as previously described, are shown separately on the statement of net assets.

Loans Receivable, Net

Loans receivable are carried at their unpaid principal balances, net of an allowance for loan losses, unamortized premiums, and discounts.

The allowances for loan losses are established based on management's evaluation of the loan portfolio.

Summary of Significant Accounting Policies (continued)

Generally, the Agency provides an allowance for loan losses for multifamily loans after considering the specific known risks: adequacy of collateral and projected cash flows; past experience; amount of federal or state rent subsidies, if any; the status and amount of past due payments, if any; the amount of deferred maintenance, if any; and current economic conditions.

For homeownership and home improvement loans, the Agency establishes varying amounts of reserves depending upon the number of delinquent loans, the estimated amount of loss per delinquent loan, the number of days delinquent and the type of insurance coverage in force, if any: FHA insurance, RD guarantee, VA guarantee, or private mortgage insurance.

Actual gains and losses are posted to allowance for loan losses. Management believes the allowances for loan losses adequately reserve for probable losses inherent in the loan portfolios as of June 30, 2012.

Premiums, discounts or fees resulting from the purchase of homeownership mortgage loans at other than face value are amortized over the life of the loans using the effective interest method. Estimated loan prepayments are taken into account in determining the life of homeownership mortgage loans for purposes of such amortization. Premiums or discounts resulting from the purchase of home improvement loans are amortized on a straight-line basis over the average loan life. Premiums, discounts or fees resulting from the origination of multifamily development loans are amortized using the effective interest method over the term of the loan. The amount amortized is included in interest earned on loans.

Interest Receivable on Loans and Program Mortgage-backed Securities

The Agency accrues interest on its amortizing loans until they become 90 days or more delinquent in the case of multifamily loans, until they become "real estate owned" (described below) for homeownership loans, or until they are classified by the Agency as inactive for home improvement loans.

Deferred Loss on Interest Rate Swaps Agreements

The Agency's interest rate swap agreements have a negative fair value as of the end of fiscal year 2012. Because these agreements have been determined to be effective hedges under applicable accounting guidance, the negative fair value is recorded as a deferred loss.

FHA/VA Insurance Claims Receivable, Net

Mortgages that are FHA insured or VA guaranteed, and for which insurance claims have been filed, are included in this category. FHA/VA insurance claims receivable, net is carried at its estimated realizable value.

Real Estate Owned, Net

Real estate acquired through foreclosure is recorded at the lower of the investment in the loan or estimated fair market value less estimated selling costs. These properties may be RD guaranteed, uninsured or have private mortgage insurance. Real estate owned, net is carried at its estimated realizable value.

Unamortized Bond Issuance Costs

Bond issuance costs are amortized using the effective interest method in the Single Family, Residential Housing Finance, Homeownership Finance, and Multifamily Housing funds. In the Rental Housing fund, bond issuance costs are amortized using the bonds outstanding method due to the unpredictable nature of prepayments of multifamily loans.

Bonds Payable, Net

Bonds payable are carried at their unpaid principal balances, net of unamortized premiums, discounts and deferred gain or loss on refunding. Premiums and discounts are amortized using the effective interest method in the Residential Housing Finance fund and the Single Family fund. In the Rental Housing fund, deferred gain or loss on refunding is amortized using the bonds outstanding method due to the unpredictable nature of prepayments of multifamily loans.

Summary of Significant Accounting Policies (continued)

Interest Rate Swap Agreements

Because the Agency's interest rate swap agreements have a negative fair value as of the end of fiscal year 2012 and they have been determined to be effective hedges under the applicable accounting guidance, they are recorded here as a liability.

Deferred Revenue- Service Release Fees

The Agency's master servicer pays the Agency a fee for the right to service the loans backing mortgage-backed securities that are purchased by the Agency. These fees are initially recorded as Deferred Revenue-Service Release Fees then amortized to Fees Earned and Other Income using the effective interest method over the expected life of the loans.

Interfund Payable (Receivable)

Interfund payable (receivable) primarily reflects pending transfers of cash and assets between funds. The more significant activities that flow through this fund may include funds advanced for purposes of optionally redeeming bonds when economically advantageous; funds advanced for loan warehousing; administrative fees receivable and payable between funds; non-operating transfers among the Housing Endowment Fund (Pool 1), the Housing Investment Fund (Pool 2), and the Housing Affordability Fund (Pool 3); and certain mortgage payments received but not yet transferred to their respective funds.

Funds Held for Others

Funds the Agency held for others are primarily escrow amounts held by the Agency on behalf of multifamily housing developments where the Agency holds the first mortgages. These amounts are held under the terms of the related loans and federal regulations regarding subsidized housing. Investment income relating to these funds is credited directly to the escrow funds and is not included in the investment income of General Reserve.

Undisbursed proceeds of nonprofit housing state appropriation bonds are recorded in Funds Held for Others until disbursed for their intended purpose.

Also included in funds held for others are unrealized gains and losses on investments of the multifamily housing development escrow funds and funds held for, and reimbursable to, HUD, such as Section 8 payments. In addition, investment income on unspent Section 8 funds is credited directly to Funds Held For Others and not included in the investment income of Federal Appropriated.

Restricted by Bond Resolution

Restricted by Bond Resolution Net Assets represents those assets restricted within the respective bond resolution due to the specific provisions of the bond resolutions.

Restricted by Covenant

Restricted by Covenant Net Assets represents those assets in General Reserve and those assets that would otherwise be available to be transferred to General Reserve under the applicable bond resolutions. Under the Agency's bond resolutions, the Agency covenants that it will use the assets in General Reserve only for the administration and financing of programs in accordance with the policy and purpose of Minnesota Housing's enabling legislation, including reserves for the payment of bonds and notes and of loans made from the proceeds thereof, and will accumulate and maintain therein such balance of funds and investments as will be sufficient for the purpose. The Agency's Board establishes investment guidelines for these funds.

Restricted by Law

Undisbursed, recognized federal and state appropriations are classified as restricted by law.

Invested in Capital Assets

This represents the balance of capital assets, net of depreciation. No related debt exists.

Summary of Significant Accounting Policies (continued)

Agency-wide Total

The Agency-wide Total columns reflect the totals of the similar accounts of the various funds. Since the assets of certain of the funds are restricted by either the related bond resolutions or legislation, the totaling of the accounts, including assets therein, is for convenience only and does not indicate that the combined assets are available in any manner other than that provided for in either the bond resolutions, Board resolutions or the legislation for the separate funds or groups of funds. The totals for fiscal year 2011 are for comparative purposes only.

Administrative Reimbursement

The largest source of funding for the Agency's administrative operations is a monthly transfer from each of the bond funds to General Reserve based on adjusted assets. Adjusted assets are defined as total assets excluding the reserve for loan loss, unearned discounts on loans, proceeds of debt issued to preserve bonding authority, proceeds of escrowed bonds issued under the federal New Issue Bond Program, premiums on loans, deferred bond issuance costs, unrealized appreciation and depreciation on investments including all mortgage-backed securities, and deferred loss on interest rate swap agreements.

For programs funded by state appropriations, the Agency recovers the cost of administering the programs but only to the extent of interest earnings on unexpended state appropriations.

For programs funded by federal appropriations, the Agency recovers the cost of administering programs through an approved federal indirect cost recovery rate. Certain other direct costs are also recovered. Total direct and indirect costs recovered from the federal government in the amount of $1.833 million are reflected as administrative reimbursement revenues in the General Reserve.

Administrative reimbursements in the amount of $19.785 million between the Agency's funds have been eliminated from the respective administrative reimbursement revenues and expenses line items for purposes of presentation in the Agency-wide statement of activities.

Fees Earned and Other Income

Fees earned and other income consists mainly of fees related to the financing and administration of Section 8 properties, including administration of a HUD-owned Section 8 portfolio, fees in connection with operating the federal Low Income Housing Tax Credit program, annual fees related to certain multifamily housing development loans, fees from the Low Income Rental Class program, private contributions restricted to use in the Agency's Homeownership Education, Counseling and Training Program, housing development operating subsidies received from other state agencies and fees for issuing and monitoring conduit bonds. Fees earned and other income is recorded as it is earned.

Reduction in Carrying Value of Certain Low Interest Rate Deferred Loans

The carrying value of certain Housing Affordability Fund (Pool 3) loans and State Appropriated loans which are originated at below market interest rates and for which repayment is deferred for up to 30 years, is written down to zero at the time of origination by providing for a Reduction in Carrying Value of Certain Low Interest Rate Deferred Loans because of the nature of these loans and the risks associated with them. Certain of these loans may be forgiven at maturity.

Other Changes

The Agency utilizes the Other Changes section of the Statement of Revenues, Expenses and Changes in Net Assets to describe various transfers between funds.

Non-operating Transfer of Assets Between Funds

Non-operating transfers occur as a result of bond sale contributions related to new debt issues; transfers

Summary of Significant Accounting Policies (continued)

among the Housing Endowment Fund (Pool 1), the Housing Investment Fund (Pool 2), and the Housing Affordability Fund (Pool 3) to maintain the Pool 1 required balance; and periodic transfers from the bond funds of assets in excess of bond resolution requirements.

Non-Cash Activities

Transfers from loans receivable to FHA/VA insurance claims receivable and real estate owned for fiscal year 2012 were $79.6 million and $3.9 million for Residential Housing Finance and Single Family, respectively.

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain amounts in the comparative totals columns of the financial statements have been reclassified to conform with the current year presentation.

Income Taxes

The Agency, as an agency of the State of Minnesota, is exempt from federal and state income taxes. Accordingly, no provision for income taxes is necessary.

Rebateable Arbitrage

Arbitrage earnings that are owed to the United States Treasury are recorded in Accounts Payable and based on estimated calculations performed by an independent calculation specialist on an ongoing basis. Also included in this category is yield compliance liability.

Cash, Cash Equivalents and Investment Securities

Permitted Agency investments include government obligations, commercial paper, repurchase agreements, money market funds, guaranteed investment contracts (i.e., investment agreements), the State investment pool, corporate obligations, municipal bonds and other investments consistent with requirements of safety and liquidity that comply with applicable provisions of the bond resolutions, state law or Board policy.

Cash and Cash Equivalents are generally stated at cost, which approximates market value. Certain investment agreements are stated at an amount that is less than cost. The balances were composed of the following at June 30, 2012 (in thousands):

Cash and Cash Equivalents

Funds	Deposits	Money Market Fund	State Investment Pool	Investment Agreements	Combined Totals
General Reserve Account	$ -	$ -	$ 90,544	$ -	$ 90,544
Federal Appropriated Accounts	59	1,766	299	-	2,124
State Appropriated Accounts	147	2,954	56,298	-	59,399
Rental Housing	19	17,012	-	11,876	28,907
Residential Housing Finance	2,721	140,474	-	70,960	214,155
Homeownership Finance	-	36,355	-	-	36,355
Multifamily Housing	-	1,198	-	-	1,198
Combined Totals	$2,946	$199,759	$147,141	$82,836	$432,682

Deposits were cash awaiting investment, consisting of interest earned on investments received too late on the last day of the fiscal year to be invested and loan servicer deposits in transit.

Cash, Cash Equivalents and Investment Securities (continued)

The State investment pool is an internal investment pool managed by the Minnesota State Board of Investment (SBI). The SBI invests in debt securities, including U.S. treasury securities, U.S. agency securities, bankers' acceptances, high grade corporates, and commercial paper. This investment pool is unrated.

Generally, investment agreements are uncollateralized, interest-bearing contracts with financial institutions or corporations with variable liquidity features, which require a one-day to two-week notice for deposits and/or withdrawals, and are invested in accordance with the restrictions specified in the various bond resolutions. As of June 30, 2012, all the investment agreement providers had a Standard & Poor's long-term credit rating of "AA-" or higher and a Moody's long-term credit rating of "A1" or higher, except for Depfa Bank PLC's rating which is discussed below. The individual investment agreements are unrated. Substantially all of the agreements contain "termination" clauses so that the Agency may withdraw funds early if credit ratings deteriorate below specified levels and remedial action is not taken. Certain investment agreements with Depfa Bank PLC ($25.518 million) require downgrade to the ratings on the related bonds before triggering the termination clauses. Since those bonds are general obligations of the Agency, it is unlikely that deterioration in Depfa's ratings will affect the ratings on the bonds. Because Depfa Bank PLC's rating is "BBB" from Standard & Poor's and "Baa3" from Moody's, the Agency reduced the carrying value of those agreements by $1.029 million as of June 30, 2012.

Investment securities (comprising U.S. Treasury securities, U.S. Agency securities, commercial paper and corporate notes) are recorded at fair market value and were allocated to the following funds at June 30, 2012 (in thousands):

Investment Securities

Funds	Investment Securities-Other at Amortized Cost	Program Mortgage-backed Securities at Amortized Cost	Unrealized Appreciation (Depreciation) in Fair Market Value	Estimated Fair Market Value
General Reserve Account	$ 5,015	$ -	$ 189	$ 5,204
Federal Appropriated Accounts	7,114	-	94	7,208
State Appropriated Accounts	12,676	-	956	13,632
Rental Housing	13,969	-	217	14,186
Residential Housing Finance	172,985	89,442	9,678	272,105
Homeownership Finance	135	532,236	40,095	572,466
Multifamily Housing	-	-	-	-
Combined Totals	$211,894	$621,678	$51,229	$884,801

U.S. Treasury securities, U.S. Agency securities, corporate notes, mortgage-backed securities and commercial paper in General Reserve, State Appropriated and Federal Appropriated are held by the Agency's agent in the name of the State of Minnesota. U.S. treasury and U.S. agency securities in the remainder of the funds are held by the trustees under the Agency's bond resolutions in the Agency's name.

Investment securities are subject to credit risk. The following table classifies investment securities, except U.S. Treasuries, by their lowest Standard & Poor's and Moody's ratings. Investment securities' credit rating categories (without qualifiers) at June 30, 2012 were (in thousands):

Cash, Cash Equivalents and Investment Securities (continued)

Credit Ratings of Investment Securities

Type	Par Value	AA+/Aaa	AA/Aa3
U.S. Agencies	$722,495	$722,495	$ -
Municipals	87,590	-	87,590
Agency-wide Totals	$810,085	$722,495	$87,590
U.S. Treasuries	10,983		
Agency-wide Totals	$821,068		

Examining the weighted average maturities of the Agency's investment securities can reveal information about interest rate risk. Cash, Cash Equivalents and Investment Securities (excluding unrealized appreciation of $5.625 million and net discounts of $1.462 million), along with the weighted average maturities (in years) as of June 30, 2012, consisted of the following (in thousands):

		Weighted Average Maturity, In Years							
Type	Par Value	General Reserve	Rental Housing	Residential Housing Finance	Single Family	Home-ownership Finance	Multifamily Housing	State Appropri-ated	Federal Appropriated
Deposits	$ 2,946	-	-	-	-	-	-	-	-
Money market fund	199,759	-	-	-	-	-	-	-	-
State investment pool	147,141	-	-	-	-	-	-	-	-
Investment agreements	82,836	-	-	-	-	-	-	-	-
U.S. Agencies	722,495	2.0	15.9	23.3	-	28.6	-	-	16.8
U.S. Treasuries	10,983	-	-	7.6	-	-	-	-	5.9
Municipals	87,590	-	-	-	-	-	-	12.7	-
Corporate notes	5,200	-	-	-	-	-	-	0.1	-
Agency-wide Totals	$1,258,950								
Weighted Average Maturity		0.1	5.2	8.6	-	26.7	-	1.3	10.5

Investments in any one issuer, excluding $602 million of investments issued or explicitly guaranteed by the U.S. Government, that represent five percent or more of the par value of total investments, as defined by GASB Statement No. 40, as of June 30, 2012 were as follows (in thousands):

Investment Issuer	Amount
Federal National Mortgage Association, U.S. Agencies	$99,043

The Agency maintained certain deposits and investments throughout fiscal year 2012 that were subject to custodial credit risk. As of June 30, 2012, the amounts subject to this risk consisted of the following (in thousands):

	Amount
Deposits not covered by depository insurance and uncollateralized (including $199,759 in a money market fund and $147,141 in the State investment pool)	$ 349,846
Investment securities (which excludes investment agreements) uninsured, uncollateral-ized and not held in the Agency's name	948,801
Agency-wide Total	$1,298,647

Cash, Cash Equivalents and Investment Securities (continued)

Net realized gain on sale of investment securities of $4.109 million is included in interest earned on investments.

Certain balances are required to be maintained under the various bond resolutions. These balances represent debt service reserves. The required balances at June 30, 2012 were as follows (in thousands):

Funds	Amount
Multifamily Housing Bonds	$ 479
Rental Housing	8,756
Residential Housing Finance	44,703
Combined Totals	$53,938

Loans Receivable, Net

Loans receivable, net at June 30, 2012 consisted of (in thousands):

Funds	Outstanding Principal	Allowance for Loan Losses	Unamortized Premiums (Discounts	Loans Receivable, Net
General Reserve	$ -	$ -	$ -	$ -
Rental Housing	171,879	(2,609)	(1,447)	167,823
Residential Housing Finance	1,660,491	(30,973)	(756)	1,628,762
Single Family	-	-	-	-
Multifamily Housing	15,000	(75)	(382)	14,543
State Appropriated	35,065	(1,095)	-	33,970
Federal Appropriated	-	-	-	-
Agency-wide Totals	$1,882,435	$(34,752)	$(2,585)	$1,845,098

Substantially all loans in the table above are secured by first or second mortgages on the real property financed. A significant portion of the homeownership first mortgage loans in the Residential Housing Finance fund have either FHA insurance or a VA or RD guarantee. Insurance reduces, but does not eliminate, loan losses.

In addition to the loans in the table above, certain loans are carried at below-market interest rates and repayment is deferred for up to 30 years. These loans are generally in either a second or more subordinate mortgage position or may be unsecured. Given the nature of these loans and the risk associated with them, at the time of origination they are fully reserved resulting in a net carrying value of zero. During fiscal year 2012 the unpaid principal amount of loans with such characteristics aggregated $8.109 million in the Residential Housing Finance Housing Affordability Fund (Pool 3) and $14.349 million in State Appropriated. Loans with net carrying values of zero are excluded from the tables above and on the next page.

Loans Receivable, Net (continued

Loans receivable, net and gross in Residential Housing Finance at June 30, 2012 consist of a variety of loans as follows (in thousands):

Description	Net Outstanding Amount	Gross Outstanding Amount
Residential Housing Finance Bonds:		
Homeownership, first mortgage loans	$1,311,538	$1,329,261
Other homeownership loans, generally secured by a second mortgage	1,737	1,800
Alternative Loan Fund, Housing Investment Fund (Pool 2):		
Home Improvement loans, generally secured by a second mortgage	98,987	101,372
Homeownership, first mortgage loans	30,988	31,521
Multifamily, first mortgage loans	156,940	166,760
Alternative Loan Fund, Housing Affordability Fund (Pool 3):		
Other homeownership loans, generally secured by a second mortgage	28,572	29,777
Residential Housing Finance Totals	$1,628,762	$1,660,491

The Agency is limited by statute to financing real estate located within the State of Minnesota. Collectability depends on, among other things, local economic conditions.

Other Assets

Other assets, including receivables, at June 30, 2012 consisted of the following (in thousands):

Funds	Receivables Due from the Federal Government	Other Assets and Receivables	Total
General Reserve	$1,081	$ 3	$ 1,084
Rental Housing	-	4	4
Residential Housing Finance	-	53	53
Single Family	-	-	-
Homeownership Finance	-	15	15
Multifamily Housing	-	-	-
State Appropriated	-	-	-
Federal Appropriated	613	-	613
Agency-wide Totals	$1,694	$ 75	$ 1,769

Bonds Payable, Net

Bonds payable, net at June 30, 2012 were as follows (in thousands):

Funds	Par Bonds Outstanding	Net Unamortized Premium and Deferred Fees	Net Unamortized Deferred Loss	Bonds Payable, Net
Rental Housing	$ 105,870	$ -	$(1,203)	$ 104,667
Residential Housing Finance	1,500,095	4,088	(674)	1,503,509
Single Family	-	-	-	-
Homeownership Finance	543,445	3,468	-	546,913
Multifamily Housing	15,000	-	-	15,000
Totals	$2,164,410	$7,556	$(1,877)	$2,170,089

Summary of bond activity from June 30, 2011 to June 30, 2012 (in thousands):

Funds	June 30, 2011 Bonds Outstanding, at Par	Par Issued	Par Repaid	June 30, 2012 Bonds Outstanding, at Par
Homeownership Finance	$ 399,990	$149,685	$ 6,230	$ 543,445
Multifamily Housing	15,000	-	-	15,000
Rental Housing	159,200	8,965	62,295	105,870
Residential Housing Finance	1,881,285	150,750	531,940	1,500,095
Single Family	97,505	-	97,505	-
Totals	$2,552,980	$309,400	$697,970	$2,164,410

Bonds payable at June 30, 2012 were as follows (in thousands):

Series	Interest rate	Final Maturity	Original Par	June 30, 2012 Bonds Outstanding, at Par
Rental Housing Bonds				
2003 Series A	4.55% to 4.95%	2045	$ 12,770	$ 11,695
2003 Series B	4.15% to 5.08%	2031	1,945	1,630
2003 Series C-1	4.35% to 5.20%	2034	2,095	1,835
2004 Series A	3.80% to 5.00%	2035	9,345	7,125
2004 Series B	4.00% to 4.85%	2035	3,215	2,860
2004 Series C	3.55% to 4.40%	2022	80,000	30,085
2005 Series A-1	4.25% to 4.85%	2035	1,725	1,560
2006 Series A-1	4.40% to 5.10%	2047	6,615	6,360
2006 Series B	4.89%	2037	5,020	4,675
2006 Series C-1	4.96%	2037	2,860	2,655
2007 Series A-1	4.65%	2038	3,775	3,545
2010 Series A-1	3.75% to 5.25%	2040	3,605	3,605
2010 Series A-2	1.25%	2012	2,630	2,630

Bonds Payable, Net (continued)

Series	Interest rate	Final Maturity	Original Par	June 30, 2012 Bonds Outstanding, at Par
Rental Housing Bonds (continued)				
2010 Series B	1.75%	2013	$ 8,000	$ 8,000
2011 Series A	0.75% to 5.45%	2041	8,890	8,645
2012 Series A-1	3.75%	2048	4,175	4,175
2012 Series A-2	0.75%	2014	4,790	4,790
			161,455	105,870
Residential Housing Finance Bonds				
2002 Series H	4.93%	2012	$ 20,000	$ 10,000
2003 Series A	3.40% to 4.30%	2034	40,000	8,705
2003 Series B	Variable	2033	25,000	25,000
2003 Series I	4.45% to 5.10%	2020	25,000	3,770
2003 Series J	Variable	2033	25,000	19,770
2004 Series A	3.45% to 4.25%	2018	22,480	15,965
2004 Series B	4.60% to 5.00%	2033	94,620	32,950
2004 Series C	4.700%	2035	14,970	11,810
2004 Series E-1	4.10% to 4.60%	2016	5,110	2,745
2004 Series E-2	4.40% to 4.60%	2016	6,475	3,795
2004 Series F-2	4.80% to 5.25%	2034	36,160	15,965
2004 Series G	Variable	2032	50,000	34,340
2005 Series A	3.60% to 4.125%	2018	14,575	5,325
2005 Series B	4.75% to 5.00%	2035	20,425	11,470
2005 Series C	Variable	2035	25,000	17,825
2005 Series G	4.25% to 4.30%	2018	8,950	6,360
2005 Series H	4.15% to 5.00%	2036	51,050	23,320
2005 Series I	Variable	2036	40,000	28,505
2005 Series J	3.625% to 4.00%	2015	11,890	9,290
2005 Series K	4.30% to 4.40%	2028	41,950	19,595
2005 Series L	4.75% to 5.00%	2036	48,165	26,785
2005 Series M	Variable	2036	60,000	41,725
2005 Series O	3.90% to 4.20%	2015	4,510	4,405
2005 Series P	4.25% to 5.00%	2036	65,490	41,325
2006 Series A	3.70% to 4.00%	2016	13,150	4,860
2006 Series B	4.60% to 5.00%	2037	43,515	24,715
2006 Series C	Variable	2037	28,335	23,185
2006 Series F	3.95% to 4.25%	2016	11,015	4,400
2006 Series G	4.85% to 5.50%	2037	58,985	45,385
2006 Series H	5.85%	2036	15,000	3,465
2006 Series I	4.30% to 5.75%	2038	95,000	62,010

Bonds Payable, Net (continued)

Series	Interest rate	Final Maturity	Original Par	June 30, 2012 Bonds Outstanding, at Par
Residential Housing Finance Bonds (continued)				
2006 Series J	6.00% to 6.51%	2038	$ 45,000	$ 29,375
2006 Series L	3.65% to 3.95%	2016	6,740	4,040
2006 Series M	4.625% to 5.75%	2037	35,260	31,835
2006 Series N	5.36% to 5.76%	2037	18,000	8,660
2007 Series C	3.75% to 3.95%	2017	12,515	7,720
2007 Series D	4.60% to 5.50%	2038	62,485	47,465
2007 Series E	Variable	2038	25,000	17,615
2007 Series H	3.65% to 3.95%	2017	12,230	11,270
2007 Series I	4.65% to 5.50%	2038	100,270	71,390
2007 Series J	Variable	2038	37,500	27,070
2007 Series L	4.20% to 5.50%	2048	105,000	77,535
2007 Series M	6.345%	2038	70,000	54,915
2007 Series P	3.50% to 3.90%	2017	4,305	3,520
2007 Series Q	4.00% to 5.50%	2038	42,365	30,825
2007 Series R	4.68% to 4.76%	2013	2,840	710
2007 Series S	Variable	2038	18,975	18,975
2007 Series T	Variable	2048	37,160	26,955
2008 Series A	3.30% to 4.65%	2023	25,090	12,885
2008 Series B	5.50% to 5.65%	2033	34,910	22,855
2008 Series C	Variable	2048	40,000	40,000
2009 Series A	2.55% to 5.20%	2023	26,795	17,360
2009 Series B	5.00% to 5.90%	2038	33,205	22,430
2009 Series C	Variable	2036	40,000	40,000
2009 Series D	1.75% to 4.00%	2020	19,830	12,975
2009 Series E	2.05% to 5.10%	2040	103,960	94,690
2009 Series F	Variable	2031	34,120	27,510
2012 Series A	0.75% to 3.90%	2023	50,945	50,945
2012 Series B	3.30% to 3.45%	2024	8,830	8,830
2012 Series C	3.625% to 3.85%	2029	30,975	30,975
2012 Series D	3.90% to 4.00%	2040	60,000	60,000
			2,166,125	1,500,095
Homeownership Finance Bonds				
2009 A-1	3.01%	2041	$ 108,000	$ 107,320
2009 A-2	3.55%	2041	67,500	67,360
2009 A-3	3.48%	2041	28,000	27,990
2009 A-4A	2.48%	2041	21,910	21,910
2009 A-4B	2.48%	2041	13,090	13,090

Bonds Payable, Net (continued)

Series	Interest rate	Final Maturity	Original Par	June 30, 2012 Bonds Outstanding, at Par
Homeownership Finance Bonds (continued)				
2009 A-5	2.49%	2041	$ 21,990	$ 21,990
2010 A	0.85% to 4.25%	2028	72,000	68,350
2011 A	0.65% to 1.25%	2013	3,740	2,555
2011 B	1.25% to 5.00%	2031	63,760	63,520
2011 C	0.50% to 3.85%	2031	8,310	8,030
2011 D	0.90% to 4.70%	2034	33,690	33,645
2011 E	0.25% to 4.45%	2035	65,000	65,000
2011 F	0.55% to 3.45%	2022	13,575	13,575
2011 G	4.00% to 4.25%	2035	29,110	29,110
			549,675	543,445
Multifamily Housing Bonds				
2009	3.01%	2051	$15,000	$15,000
			15,000	15,000
Combined Totals			$2,892,255	$2,164,410

The Agency uses special and optional redemption provisions to retire certain bonds prior to their stated maturity from unexpended bond proceeds and revenues in excess of scheduled debt service resulting primarily from loan prepayments.

Substantially all bonds are subject to optional redemption after various dates at an amount equal to 100% to 102% of the unpaid principal and accrued interest as set forth in the applicable series resolution. Annual debt service requirements to maturity for bonds outstanding as of June 30, 2012, are as follows (in thousands):

	Rental Housing		Residential Housing Finance	
Fiscal Year	Principal	Interest	Principal	Interest
2013	$ 14,940	$ 4,024	$ 38,450	$ 51,149
2014	4,660	3,783	32,260	51,583
2015	9,490	3,611	35,000	50,497
2016	4,915	3,432	35,070	49,289
2017	4,405	3,237	37,780	48,120
2018-2022	17,815	13,438	197,650	220,373
2023-2027	11,710	10,608	262,805	180,916
2028-2032	11,390	8,125	340,830	129,467
2033-2037	12,275	5,102	356,495	67,634
2038-2042	9,755	2,565	148,410	9,195
2043-2047	4,310	509	12,500	707
2048-2052	205	6	2,845	26
Total	$105,870	$58,440	$1,500,095	$858,956

Bonds Payable, Net (continued)

Fiscal Year	Homeownership Finance Principal	Homeownership Finance Interest	Multifamily Housing Principal	Multifamily Housing Interest
2013	$ 9,265	$ 18,226	$ 110	$ 450
2014	10,015	18,106	230	445
2015	10,220	17,984	230	438
2016	10,475	17,816	230	431
2017	10,785	17,600	240	424
2018-2022	60,275	83,112	1,200	2,012
2023-2027	75,600	70,711	1,200	1,832
2028-2032	97,725	52,603	1,760	1,612
2033-2037	126,305	31,887	1,840	1,342
2038-2042	132,780	9,959	2,390	1,022
2043-2047	-	-	2,790	642
2048-2052	-	-	2,780	189
Totals	$543,445	$338,004	$15,000	$10,839

Fiscal Year	Combined Totals Principal	Combined Totals Interest
2013	$ 62,765	$ 73,849
2014	47,165	73,917
2015	54,940	72,530
2016	50,690	70,968
2017	53,210	69,381
2018-2022	276,940	318,935
2023-2027	351,315	264,067
2028-2032	451,705	191,807
2033-2037	496,915	105,965
2038-2042	293,335	22,741
2043-2047	19,600	1,858
2048-2052	5,830	221
	$2,164,410	$1,266,239

Residential Housing Finance Bonds 2003 Series B and J; 2004 Series G; 2005 Series C, I and M; 2006 Series C; 2007 Series E (Taxable), J (Taxable), S and T (Taxable); 2008 Series C; and 2009 Series C and F accrue interest at rates that change weekly as determined by a remarketing agent for such series based on market conditions. Future interest due for these bonds, as displayed above in the annual debt service requirements table, assumes that the respective rates in effect on June 30, 2012 continue for the term of the bonds. Variable rate bond interest payments will vary as general short-term interest rates vary. Associated interest rate swaps are not included in the annual debt service requirements table. See the Swap Payments and Associated Debt table below to view those amounts.

The income and assets of each of the bond funds are pledged on a parity basis for the payment of principal and interest on the bonds issued, and to be issued, under the respective resolutions. All but one of the bond

Bonds Payable, Net (continued)

resolutions contains covenants that require the Agency to maintain certain reserves. The Agency believes that as of June 30, 2012, it is in compliance with those covenants in all material respects and the assets of all funds and accounts in the bond funds equaled or exceeded the requirements as established by the respective bond resolutions.

Redemption notices were issued on or before June 30, 2012 for the redemption of certain bonds thereafter. See Subsequent Events.

Interest Rate Swaps

The Agency has entered into certain interest rate swap agreements that are considered to be derivative instruments under Governmental Accounting Standards Board Statement No. 53, Accounting and Financial Reporting for Derivative Instruments (GASB 53). A consultant was engaged by the Agency to determine the fair value of these agreements and to evaluate their effectiveness as hedges as of June 30, 2012. The fair values approximate the termination payments that would have been due had the swaps been terminated as of June 30, 2012. In accordance with GASB 53, the Agency recorded the fair value of the agreements on the statement of net assets. The fair values exclude accrued interest. As of June 30, 2012, all of the Agency's interest rate swap agreements have been determined to be effective hedges, as defined by GASB 53. The fair value is displayed on the statement of net assets as a liability named "Interest rate swap agreements." The inception-to-date change in fair value as of June 30, 2012 is included in the asset account identified as "Deferred loss on interest rate swap agreements."

Objective of Swaps

The Agency entered into interest rate swap agreements in connection with its issuance of variable rate mortgage revenue bonds under the Residential Housing Finance Bond Resolution from 2003 through 2009. Using variable-rate debt hedged with interest-rate swaps reduced the Agency's cost of capital at the time of issuance compared to using long-term fixed rate bonds and, in turn, enabled the Agency to reduce mortgage rates offered to the Agency's low- and moderate-income, first-time home buyers.

Swap Payments and Associated Debt

Using rates as of June 30, 2012, debt service requirements of the Residential Housing Finance outstanding variable rate debt and net swap payments, assuming current interest rates remain the same for their term, are as follows (in thousands). As rates vary, variable rate bond interest payments and net swap payments will vary.

Fiscal Year	Principal	Interest	Interest Rate Swaps, Net	Total
2013	$ 29,780	$ 661	$13,450	$ 43,891
2014	765	639	12,303	13,707
2015	1,035	637	11,617	13,289
2016	3,725	635	10,863	15,223
2017	7,015	626	10,085	17,726
2018-2022	33,610	2,970	41,960	78,540
2023-2027	68,145	2,527	29,954	100,626
2028-2032	100,960	1,793	20,888	123,641
2033-2037	104,145	856	11,586	116,587
2038-2042	27,150	185	2,310	29,645
2043-2047	8,985	76	861	9,922
2048-2052	3,205	6	66	3,277

Interest Rate Swaps (continued)

Terms of Swaps

Terms of the swaps, the fair values, changes in fair values, and the credit ratings of the two counterparties thereto as of June 30, 2012, are contained in the two tables below (in thousands). All swaps are pay-fixed, receive-variable. Initial swap notional amounts matched original principal amounts of the associated debt. The Agency's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximate scheduled or anticipated reductions in outstanding principal amounts of the associated bond series. With respect to the outstanding swaps (except for the 2009 F swap), the Agency has also purchased the right, generally based upon a 300% PSA prepayment rate (The Standard Prepayment Model of The Securities Industry and Financial Markets Association and formerly the Public Securities Association) on the underlying mortgage loans, to further reduce the notional balances of the swaps as necessary to match the outstanding principal amount of the associated bond series and, except for the 2003B, 2003J, 2004G, and 2009F swaps, the right to terminate the swaps at par at approximately the 10 year anniversary date of the swap. The Agency also has the right to terminate outstanding swaps in whole or in part at fair value at any time if it is not in default thereunder.

Counterparty: The Bank of New York Mellon

Moody's* Aa1 (stable outlook) / Standard & Poor's** AA- (negative outlook)

Associated Bond Series	Notional Amount as of June 30, 2012	Effective Date	Swap Maturity Date	Fixed Rate Payable	Variable Rate Receivable	Fair Value[1] as of June 30, 2012	Increase (Decrease) in Fair Value since June 30, 2011
RHFB 2003B	$ 25,000	23-Jul-03	1-Jan-33	3.53%	65% of 1 month LIBOR*** plus 0.23% per annum	($1,817)	($816)
RHFB 2003J	19,770	15-Oct-03	1-Jul-33	4.18%	65% of 1 month LIBOR*** plus 0.23% per annum	(2,422)	(606)
RHFB 2005C	17,825	2-Mar-05	1-Jan-35	3.59%	64% of 1 month LIBOR*** plus 0.28% per annum	(1,097)	53
RHFB 2005I	28,505	2-Jun-05	1-Jan-36	3.57%	64% of 1 month LIBOR*** plus 0.28% per annum	(2,179)	(134)
RHFB 2005M	41,725	4-Aug-05	1-Jan-36	3.37%	64% of 1 month LIBOR*** plus 0.29% per annum	(2,999)	(243)
RHFB 2006C	23,185	21-Mar-06	1-Jan-37	3.79%	64% of 1 month LIBOR*** plus 0.29% per annum	(2,204)	(248)
RHFB 2007S	18,975	19-Dec-07	1-Jul-38	4.34%	100% of SIFMA**** Index plus 0.06% per annum	(2,080)	(1,367)
RHFB 2007T (Taxable)	26,955	19-Dec-07	1-Jul-26	4.538%	100% of 1 month LIBOR***	(3,048)	(460)
Counterparty Total	$201,940					($17,846)	($3,821)

Counterparty: Royal Bank of Canada

Moody's* Aa3 (stable outlook) / Standard & Poor's** AA- (stable outlook[2])

Associated Bond Series	Notional Amount as of June 30, 2012	Effective Date	Swap Maturity Date	Fixed Rate Payable	Variable Rate Receivable	Fair Value[1] as of June 30, 2012	Increase (Decrease) in Fair Value since Fiscal Year Ended June 30, 2011
RHFB 2004G	$ 34,340	July 22, 2004	January 1, 2032	4.165%	64% of 1 month LIBOR*** plus 0.26% per annum	$ (3,027)	$ (127)
RHFB 2007E (Taxable)	17,615	March 7, 2007	July 1, 2038	5.738%	100% of 1 month LIBOR***	(1,894)	(25)
RHFB 2007J (Taxable)	27,070	May 17, 2007	July 1, 2038	5.665%	100% of 1 month LIBOR***	(2,968)	(143)
RHFB 2008C	40,000	August 7, 2008	July 1, 2048	4.120%	64% of 1 month LIBOR*** plus 0.30% per annum	(5,567)	(2,024)
RHFB 2009C	40,000	February 12, 2009	July 1, 2039	3.070%	64% of 3 month LIBOR*** plus 0.30% per annum	(7,166)	(2,488)
RHFB 2009F	27,510	December 1, 2009	September 12, 2017	2.365%	100% of weekly SIFMA****plus 0.80% per annum	(1,167)	(191)
Counterparty Total	$ 186,535					$ (21,789)	$ (4,998)
Combined Totals	$ 388,475					$ (39,635)	$ (8,819)

[1] A positive fair value represents money due to the Agency by the counterparty upon an assumed termination of the swap while a negative fair value represents the amount payable by the Agency

[2] Standard & Poor's Ratings Services, Inc. has given the "AA-" rating of this counterparty (Royal Bank of Canada) a negative outlook as of July 27, 2012.

* Moody's Investor Service, Inc.
** Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies
*** London Inter-Bank Offered Rate
**** Securities Industry and Financial Markets Association

Termination Risk

The swap contracts may be terminated by either party if the other party fails to perform under the terms of the contract or upon certain termination events. Upon termination at market, a payment is due by one party based upon the fair value of the swap even if the payment is owed to a defaulting party. The potential termination risks to the Agency are the liability for a termination payment to the counterparty or the inability to replace the swap upon favorable financial terms, in which event the variable rate bonds would no longer be hedged. To reduce the risk of termination, swap contracts generally limit counterparty terminations to the following Agency actions or events: payment default, other defaults that remain uncured for 30 days after notice, substantial impairment of credit ratings, bankruptcy and insolvency.

Credit Risk

A swap potentially exposes the Agency to credit risk with the counterparty. The fair value of a swap represents the Agency's current potential credit exposure to the swap counterparty assuming the occurrence of a termination event. As of June 30, 2012, the Agency did not have a net credit risk exposure to any of its two counterparties because their respective combined swap positions had a negative net fair value, as set forth in the foregoing tables. Each of the swap agreements requires that, upon demand, a party post collateral to secure its obligation to make a termination payment to the extent the fair value exceeds a collateral threshold

Interest Rate Swaps (continued)

specified in the agreement. The collateral threshold for each counterparty and the Agency is $50 million if the ratings on the unsubordinated, unsecured long-term indebtedness of the counterparty, in the case of the counterparty, or the hedged bonds, in the case of the Agency, are not less than “AA-“ and “Aa3” from Standard & Poor’s and Moody’s, respectively, $5 million if the ratings are not less than “A+” and “A1”, $3 million if the ratings are not less than “A” and “A2”, and $0, if either rating is lower. These bilateral requirements are established to mitigate potential credit risk exposure. As of June 30, 2012, neither the Agency nor any counterparty had been required to post collateral.

Amortization Risk

The Agency is subject to amortization risk because prepayments from the mortgage loan portfolio may cause the outstanding principal amount of variable rate bonds to decline faster than the amortization of the notional amount of the swap. To ameliorate amortization risk, termination options were structured within most of the outstanding swaps to enable the Agency to manage the outstanding balances of variable rate bonds and notional swap amounts. (See Terms of Swaps) Additionally, the Agency may terminate outstanding swaps in whole or in part at fair value at any time if it is not in default thereunder.

Basis Risk

The potential for basis risk exists when variable interest payments on the Agency’s bonds do not equal variable interest receipts payable by the counterparty under the associated swap. The variable rate the Agency pays on its bonds resets weekly, but the variable rate received on its swaps is based upon a specified percentage of the one-month or three-month taxable LIBOR rate or the SIFMA index rate, plus a specified spread if the swap relates to tax-exempt bonds. Basis risk will vary over time due to inter-market conditions. As of June 30, 2012, the interest rate on the Agency’s variable rate tax-exempt debt ranged from 0.18% to 0.32% per annum while the variable interest rate on the associated swaps ranged from 0.24% to 0.56% per annum. As of June 30, 2012, the interest rate on the Agency’s variable rate taxable debt was 0.21% per annum while the variable interest rate on the corresponding swaps ranged from 0.24% to 0.25% per annum. In order to reduce the cumulative effects of basis risk on the swaps relating to tax-exempt variable rate debt, the determination of the spread from one-month LIBOR payable by the counterparty under the swap was based upon a regression analysis of the long-term relationship between one-month LIBOR and the tax-exempt variable rate SIFMA index (which ordinarily would approximate the weekly variable rate on the Agency’s tax-exempt variable rate bonds).

Tax Risk

The structure of the variable interest rate payments the Agency receives from its LIBOR-based swap contracts relating to tax-exempt variable rate bonds is based upon the historical long-term relationship between taxable and tax-exempt short-term interest rates. Tax risk represents the risk that may arise due to a change in the tax code that may fundamentally alter this relationship. The Agency chose to assume this risk at the time the swaps were entered into because it was not economically favorable to transfer to the swap counterparties.

Defeased Debt

All outstanding Single Family Mortgage Bonds, totaling $81,085,000, were defeased on April 26, 2012.

On that date, the Agency issued $150,750,000 of Residential Housing Finance Bonds, 2012 Series ABCD, a portion of which defeased $45,720,000 of certain outstanding Single Family Mortgage Bonds in 1994 Series E, 1996 Series ABC, 1996 Series DEF, 1998 Series FGH-1, 1998 Series FGH-2, 1999 Series HI, 1999 Series JK, 2000 Series FGH, and 2001 Series AB. The reacquisition price of the refunded bonds exceeded the net carrying amount by $0.447 million, which has been netted against the new debt and amortized over the remaining life of the refunded debt. The refunding of these bonds decreased total future debt service by approximately $3.969 million and resulted in a present value savings of approximately $5.786 million with refunding bond proceeds and available Agency cash.

Defeased Debt (continued)

On April 26, 2012, using available resources the Agency defeased $35,365,000 of certain outstanding Single Family Mortgage Bonds in 1996 Series ABC, 1996 Series DEF, 1997 Series DEF, 1997 Series GH, 1998 Series FGH-1, 1998 Series FGH-2, 1999 Series HI, 1999 Series JK, 2000 Series FGH, 2001 Series AB, and 2001 Series E. The reacquisition price exceeded the net carrying amount by $0.754 million, which is included in interest expense.

The trust account assets and the liability for the defeased bonds were not included in the Agency's statement of net assets after April 26, 2012.

At June 30, 2012, the outstanding principal of the defeased bonds was $12.380 million.

Conduit Debt Obligation

On December 21, 2005, the Agency issued tax-exempt bonds on a conduit basis to assist a Minnesota nonprofit organization in preserving assisted elderly rental housing. The proceeds of the bonds were used by the organization to refinance certain HUD Section 202 elderly housing projects. The bonds were sold on a private placement basis. As of June 30, 2012, $29.9 million of the bonds were outstanding. Neither the Agency, the State of Minnesota, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

Appropriation Debt Obligation

The Agency has outstanding bonds under a certain indenture of trust that permits capital funding for permanent supportive housing for long-term homeless households and other purposes. As of June 30, 2012, $31.980 million of bonds were outstanding. These bonds are secured solely by state appropriations. This debt is not a general obligation of the Agency and is not payable from any funds or assets of the Agency other than the appropriations the Agency expects to receive from the State General Fund pursuant to a standing appropriation made by the Legislature in 2008. Thus, the bonds are not recorded as a liability in the accompanying financial statements.

Accounts payable and other liabilities at June 30, 2012 consisted of the following (in thousands):

Fund	Arbitrage Rebate Payable to the Federal Government and Yield Compliance Liability	Accrued Salaries, Compensated Absences and Employee Benefits	Other Liabilities and Accounts Payable	Total
General Reserve	$ -	$2,583	$1,990	$ 4,573
Rental Housing	3,140	-	75	3,215
Residential Housing Finance	139	-	1,794	1,933
Single Family	-	-	-	-
Homeownership Finance	-	-	38	38
Multifamily Housing	-	-	75	75
State Appropriated	-	-	2,170	2,170
Federal Appropriated	-	-	500	500
Agency-wide Totals	$3,279	$2,583	$6,642	$12,504

The amount of arbitrage rebate payable and yield compliance liability that is not due within one year in Rental Housing is $3.140 million and in Residential Housing Finance $0.139 million, for a total of $3.279 million.

Interfund Balances

Interfund balances displayed as Interfund Payable (Receivable) at June 30, 2012 consisted of the following (in thousands):

Due to — Funds	Due from: General Reserve	Rental Housing	Residential Housing Finance	Single Family	Home-ownership Finance	Multifamily Housing	State Appropriated	Federal Appropriated	Total
General Reserve	$ -	$ -	$ 128	$ -	$ -	$ -	$192	$413	$ 733
Rental Housing	-	-	1,181	-	1	-	-	-	1,182
Residential Housing Finance	1,298	-	-	-	9	-	1	-	1,308
Single Family	-	-	-	-	-	-	-	-	-
Home-ownership Finance Bonds	-	-	-	-	-	-	-	-	-
Multifamily Housing Bonds	-	-	-	-	-	-	-	-	-
State Appropriated	-	-	-	-	-	-	-	-	-
Federal Appropriated	-	-	-	-	-	-	-	-	-
Agency-wide Totals	$1,298	$ -	$1,309	$ -	$10	$ -	$193	$413	$3,223

All balances resulted from the time lag between the dates that: (1) interfund goods or services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund Transfers

Interfund transfers recorded in Interfund Payable (Receivable) for the year ended June 30, 2012 consisted of the following (in thousands)

Transfer to — Funds	Transfer from: General Reserve	Rental Housing	Residential Housing Finance	Single Family	Home-ownership Finance	Multifamily Housing	State Appropriated	Federal Appropriated	Total
General Reserve	$ -	$ 1,584	$13,547	$979	$2,776	$97	$ 789	$1,785	$21,557
Rental Housing	205	-	-	-	1	-	-	-	206
Residential Housing Finance	150	12,195	-	-	10	-	1,995	87	14,437
Single Family	-	-	-	-	1	-	-	-	1
Home-ownership Finance Bonds	-	-	10	-	-	-	-	-	10
Multifamily Housing Bonds	-	-	-	-	-	-	-	-	-

(Continued)

Interfund Transfers (continued)

	Transfer from								
Funds (Transfer to)	General Reserve	Rental Housing	Residential Housing Finance	Single Family	Home-ownership Finance	Multifamily Housing	State Appropriated	Federal Appropriated	Total
State Appropriated	-	20	74	64	-	-	-	-	158
Federal Appropriated	-	185	-	-	-	-	-	-	185
Agency-wide Totals	$355	$13,984	$13,631	$1,043	$2,788	$97	$2,784	$1,872	$36,554

Interfund transfers recorded in Interfund Payable (Receivable) were made to transfer loan payments that were deposited for administrative convenience in a fund not holding the loans; to make administrative reimbursements to the General Reserve from other funds; to pay for loans transferred between funds including $1.995 million of entry cost assistance loans transferred from Residential Housing Finance to State Appropriated and $12.195 million of multifamily first mortgage loans transferred from Residential Housing Finance (Pool 2) to Rental Housing; and to make payments from Single Family to Residential Housing Finance on loans outstanding between those funds.

Interfund transfers recorded in Non-operating Transfer of Assets Between Funds for the year ended June 30, 2012, consisted of the following (in thousands):

	Transfer from								
Funds (Transfer to)	General Reserve	Rental Housing	Residential Housing Finance	Single Family	Home-ownership Finance	Multifamily Housing	State Appropriated	Federal Appropriated	Total
General Reserve	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Rental Housing	-	-	443	-	-	-	-	-	443
Residential Housing Finance	9,659	-	-	107,095	-	-	-	-	116,754
Single Family	-	-	34,625	-	-	-	-	-	34,625
Home-ownership Finance Bonds	-	-	8,642	-	-	-	-	-	8,642
Multifamily Housing Bonds	-	-	-	-	-	-	-	-	-
State Appropriated	-	-	-	-	-	-	-	-	-
Federal Appropriated	-	-	-	-	-	-	-	-	-
Agency-wide Totals	$9,659	$ -	$43,710	$107,095	$ -	$ -	$ -	$ -	$160,464

Interfund transfers recorded in Non-operating Transfer of Assets Between Funds normally result from bond sale contributions to new debt issues in other funds, the transfer of assets to maintain the Housing Endowment Fund (Pool 1) requirement and periodic transfers from the bond funds of assets in excess of bond resolution requirements. In addition, $72.470 million of the remaining assets net of liabilities in Single Family were transferred to Residential Housing Finance when all Single Family Bonds were defeased.

Restricted by Bond Resolution

Restricted by Bond Resolution Net Assets represents those funds restricted within the respective bond resolution due to the specific provisions of the bond resolutions.

Restricted by Covenant

In accordance with provisions of the respective bond resolutions, the Agency may transfer excess money from bond funds to General Reserve. The Agency has pledged to deposit in General Reserve any such funds transferred from the bond funds, except for any amounts as may be necessary to reimburse the state for money appropriated to restore a deficiency in any debt service reserve fund. The Agency further covenanted that it will use the money in General Reserve (or any such transferred funds deposited directly in the Alternative Loan Fund) only for the administration and financing of programs in accordance with the policy and purpose of Minnesota Housing's enabling legislation, including reserves for the payment of bonds and of loans made from the proceeds thereof, and will accumulate and maintain therein such a balance of funds and investments as will be sufficient for that purpose. All interfund transfers are approved by the Board of the Agency.

In order to provide financial security for the Agency's general obligation bonds, and to provide additional resources for housing loans to help meet the housing needs of low- and moderate-income Minnesota residents, the Agency's Board adopted the investment guidelines in the following table. These guidelines are periodically evaluated in consideration of changes in the economy and in the Agency's specific risk profile.

The $468.735 million of net assets restricted by covenant are restricted by a covenant made with bondholders authorized by the Agency's enabling legislation.

The Housing Endowment Fund (Pool 1) is maintained in the Restricted by Covenant Net Assets of General Reserve. The Housing Investment Fund (Pool 2) and the Housing Affordability Fund (Pool 3) are maintained in the Restricted by Covenant Net Assets of Residential Housing Finance fund.

The combined net assets of the General Reserve and bond funds (exclusive of Pool 3) are required by Board investment guidelines to be not less than the combined net assets of the same funds as of the immediately preceding fiscal year end. These combined net assets were $683.638 million as of June 30, 2011 and are $724.098 million as of June 30, 2012.

The following table describes total net assets restricted by covenant, including the balances to be maintained according to the Agency's Board investment guidelines, as of June 30, 2012 (in thousands):

Net Assets — Restricted By Covenant	Certain Balances Maintained According to Agency's Board Guidelines	Unrealized Appreciation (Depreciation) in Fair Market Value of Investments	Total Net Assets Restricted by Covenant
Housing Endowment Fund (Pool 1), General Reserve			
Pool 1 is an amount equal to 1% of gross loans outstanding (excluding Pool 3 and appropriated loans) and must be invested in short-term, investment-grade securities at market interest rates	$ 18,176	$ -	$ 18,176

(Continued)

Net Assets (continued)

Net Assets — Restricted By Covenant	Certain Balances Maintained According to Agency's Board Guidelines	Unrealized Appreciation (Depreciation) in Fair Market Value of Investments	Total Net Assets Restricted by Covenant
Unrealized depreciation in fair market value of investments, excluding multifamily development escrow investments	-	-	-
Subtotal, Housing Endowment Fund (Pool 1), General Reserve	$ 18,176	$ -	$ 18,176
Housing Investment Fund (Pool 2), Residential Housing Finance			
An amount that causes the combined net assets in the General Reserve Account and bond funds (exclusive of Pool 3) to be the greater of the combined net assets of the same funds for the immediately preceding audited fiscal year end or the combined net assets of the same funds for the immediately preceding fiscal year end plus current fiscal year income over expenses and transfers to Pool 2 less an amount transferred to Pool 3 ($17,000 for fiscal year 2012). Pool 2 is invested in investment-quality housing loans, as defined by the Agency, or investment-grade securities.	371,396	-	371,396
Unrealized depreciation in fair market value of investments	-	959	959
Subtotal, Housing Investment Fund (Pool 2), Residential Housing Finance	371,396	959	372,355
Housing Affordability Fund (Pool 3), Residential Housing Finance			
Funds in excess of the combined requirement of Pool 1, Pool 2 and General Reserve may be transferred to Pool 3. Assets are invested in deferred loans, zero percent and low interest-rate loans, other loans with higher than ordinary risk factors, or, pending use, investment-grade securities.	76,767	-	76,767
Unrealized appreciation in fair market value of investments	-	1,437	1,437
Subtotal, Housing Affordability Fund (Pool 3), Residential Housing Finance	76,767	1,437	78,204
Agency-wide Total	$466,339	$2,396	$468,735

Net Assets (continued)

Restricted by Law

Undisbursed, recognized federal and state appropriations are classified as Net Assets Restricted by Law. The $8.799 million of net assets restricted by law in the Federal Appropriated fund as of June 30, 2012 are restricted by federal requirements that control the use of the funds. The $101.779 million of net assets restricted by law in the State Appropriated fund as of June 30, 2012 are restricted by the state laws appropriating such funds.

Defined Benefit Pension Plan

The Agency contributes to the Minnesota State Retirement System (the System), a multiple-employer public employee retirement system, which provides pension benefits for all permanent employees.

Employees who retire at “normal” retirement age or, for those hired on or before June 30, 1989, at an age where they qualify for the “Rule of 90” (i.e., at an age where age plus years of service equals or exceeds 90) are entitled to an unreduced monthly benefit payable for life. For those hired on or before June 30, 1989, normal retirement age is age 65, or age 62 with 30 years of service. For those hired after June 30, 1989, normal retirement age is the Social Security retirement age. The monthly benefit is calculated according to the “step formula” for anyone retiring under the Rule of 90. For those hired on or before June 30, 1989 and not retiring under the Rule of 90, the monthly benefit is calculated according to the step formula or the “level formula,” whichever provides the largest benefit. For those hired after June 30, 1989, the monthly benefit is calculated according to the level formula. Under the step formula, an employee earns a 1.2% credit for each of the first 10 years of employment and a 1.7% credit for each year thereafter. The monthly benefit is then determined by applying the sum of these credits to the average monthly salary earned during the employee’s five years of greatest earnings. Under the level formula the monthly benefit is computed just as it is under the step formula except that an employee earns a 1.7% credit for each year of employment, not just for those years beyond the first 10. A reduced benefit is available to those retiring at age 55 with at least three years of service. With 30 years of service, a reduced benefit is available at any age to those hired on or before June 30, 1989. The System also provides death and disability benefits. Benefits are established by Minnesota state law.

The statutory pension contribution rates for the employee and employer (as a percentage of salary) are 5% each.

The Agency’s pension contribution to the System for the fiscal year ended June 30, 2012 was $702 thousand.

Details of the benefit plan are provided on a System-wide basis. The Agency portion is not separately determinable. The funding status of the System’s benefit plan is summarized as follows.

Schedule of Funding Progress (dollars in thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Actual Covered Payroll (Previous FY)	UAAL as a % of Covered Payroll
7/1/2011	$9,130,011	$10,576,481	$1,446,470	86.32%	$2,440,580	59.27%
7/1/2010	8,960,391	10,264,071	1,303,680	87.30%	2,327,398	56.01%
7/1/2009	9,030,401	10,512,760	1,482,359	85.90%	2,329,499	63.63%

Defined Benefit Pension Plan (continued)

Schedule of Employer Contributions (dollars in thousands)

Year Ended June 30	Actuarially Required Contribution Rate of Assets	Actual Covered Payroll	Actual Member Contributions	Annual Required Employer Contributions	Actual Employer Contributions*	Percent Contributed
2011	10.99%	$2,440,580	$122,029	$146,191	$118,563	81.10%
2010	14.85%	2,327,398	115,180	230,439	113,716	49.35%
2009	12.39%	2,329,499	108,866	179,759	107,211	59.64%

*This includes contributions from other sources (if applicable).

The information presented was as of July 1, 2011, which is the latest actuarial information available.

The above summarizes the defined benefit pension plan. Please refer to the July 1, 2011, Minnesota State Employees Retirement Fund Actuarial Valuation and Review for a more comprehensive description. The actuarial valuation and review can be obtained from the financial information page of the Minnesota State Retirement System website at www.msrs.state.mn.us. The information contained in that website is also available in alternative formats to individuals with disabilities. Please call 1 800-657 5757 or use the MN Relay Service at 1 800-627 3529.

Post-Employment Benefits Other Than Pensions

The Agency's employees participate in the State of Minnesota-sponsored hospital, medical, and dental insurance group. State statute requires that former employees and their dependents be allowed to continue participation indefinitely, under certain conditions, in the insurance that the employees participated in immediately before retirement. The former employees must pay the entire premium for continuation coverage. An implicit rate subsidy exists for the former participants that elect to continue coverage. That subsidy refers to the concept that retirees under the age of 65 (i.e. not eligible for Medicare) generate greater claims on average than active participants.

The State of Minnesota obtained an actuarial valuation from an independent firm of its postretirement medical benefits as of July 1, 2006 to determine its Post-Employment Benefits Other Than Pensions (OPEB) liability. The state intends to fund the OPEB liability on a "pay as you go" basis. The State and the Agency recorded the liability for the first time during fiscal year 2008. The State calculated the Agency's portion of the OPEB obligation based upon active employee count. For the Agency in fiscal year 2008, the annual required contribution (ARC) was $96 thousand, the employer contribution was $58 thousand and the net OPEB obligation (NOO) was $38 thousand. The NOO is $156 thousand for fiscal year 2012. The NOO was recorded as an expense and a corresponding liability by the Agency. This is a cost sharing plan. The State of Minnesota has not prepared separate financial statements for the plan. The actuarial method used to determine the actuarial accrued liability and the annual required contribution was the entry age normal method. The assumed discount rate was 4.75% and the assumed payroll growth rate was 4.0%. Future retirees who are eligible for an implicit subsidy are assumed to elect coverage at a 50% rate. The projected annual medical claims cost trend rate is 9.13% initially, reduced by decrements to an ultimate rate of 5.0% for the year 2026 and beyond. Mortality was determined using 1983 Group Annuity Mortality Tables.

The funding status, from the report dated July 31, 2010, which is the latest available, is described in the following tables on a plan-wide basis. The Agency portion is not separately determinable. The State of Minnesota also subsidizes the healthcare and dental premium rates for certain other state agency retirees. That liability is reflected in the tables along with the implicit rate subsidy.

Post-Employment Benefits Other Than Pensions (continued)

The funding status is summarized as follows.

Schedule of Funding Progress (dollars in thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
7/1/2006	$ -	$564,809	$564,809	0.00%	$1,961,643	28.79%
7/1/2008	-	664,452	664,452	0.00%	1,891,300	35.13%
6/30/2010	-	693,297	693,297	0.00%	2,048,761	33.84%

Schedule of Employer Contributions (dollars in thousands)

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage Contributed	Net OPEB Obligation
6/30/2009	$65,480	$24,055	36.74%	$ 73,127
6/30/2010	67,663	28,343	41.89%	112,447
6/30/2011	66,526	34,208	51.42%	144,765
6/30/2012	70,195	46,519	66.27%	168,441

Development of NOO and Annual OPEB Cost Pursuant to GASB No. 45 (dollars in thousands)

Fiscal Year Ended	Annual Required Contribution (ARC)	Employer Contribution	Interests on NOO	ARC Adjustment with Interest (h) / (e) * 1.0475	Amort-ization Factor	Annual OPEB Cost (a) + (c) - (d)	Change in NOO (f) - (b)	NOO Balance LY +(g)
6/30/2009	$65,200	$24,055	$1,506	$1,226	27.0839*	$65,480	$41,425	$73,127
6/30/2010	67,018	28,343	3,474	2,828	27.0839*	67,663	39,320	112,447
6/30/2011	65,534	34,208	5,341	4,349	27.0839*	66,526	32,318	144,765
6/30/2012	68,918	46,519	6,876	5,599	27.0839*	70,195	23,676	168,441

* 30-year amortization using 4.75% interest and 4.00% payroll growth.

Risk Management

Minnesota Housing is exposed to various insurable risks of loss related to tort; theft of, damage to, or destruction of assets; errors or omissions; and employer obligations. Minnesota Housing manages these risks through State of Minnesota insurance plans including the State of Minnesota Risk Management Fund (a self-insurance fund) and through purchased insurance coverage. Property, casualty, liability, and crime coverage is provided by the Minnesota Risk Management Fund which may also purchase other insurance from qualified insurers for Minnesota Housing's needs. Minnesota Housing bears a $1,000 deductible per claim for the following coverage limits.

Type of coverage	Coverage Limit
Real and personal property loss	$ 4,702,559
Business interruption/loss of use/extra expense	50,000,000
Bodily injury and property damage per person	500,000
Bodily injury and property damage per occurrence	1,500,000
Faithful performance/commercial crime	14,000,000
Employee dishonesty	250,000

Minnesota Housing retains the risk of loss, although there have been no settlements or actual losses in excess of coverage in the last three fiscal years.

The Agency participates in the State Employee Group Insurance Plan, which provides life insurance and hospital, medical, and dental benefits coverage through provider organizations.

Minnesota Housing participates in the State of Minnesota Workers' Compensation Program. Annual premiums are assessed by the program based on average costs and claims. Minnesota Housing workers compensation costs and claims have been negligible during the last three fiscal years.

Commitments

As of June 30, 2012, the Agency had committed the following amounts for the purchase or origination of future loans or other housing assistance amounts (in thousands):

Funds	Amount
General Reserve	$ -
Rental Housing	5,921
Multifamily Finance	-
Residential Housing Finance	180,771
Single Family	-
Homeownership Finance	-
State Appropriated	65,099
Federal Appropriated	22,128
Agency-wide Totals	$273,919

Board-approved selections of future loans or other housing assistance for multifamily housing projects are included in the above table. Multifamily developers frequently proceed with their projects based upon their selection by the Board and, therefore, a selection is treated like a de facto commitment although it is merely a reservation of funds. The Agency retains the unilateral discretion to cancel any reservation of funds that has not been formally and legally committed.

The Agency has cancellable lease commitments for office facilities through August 2017 and for parking through February 2014, totaling $5.723 million. Combined office facilities and parking lease expense for fiscal year 2012 was $1.133 million.

Commitments (continued)

On June 30, 2012 the Agency had in place a revolving line of credit with the Federal Home Loan Bank of Des Moines. Draws against the line of credit are required to be collateralized with mortgage-backed securities which reside in Pool 2. No mortgage-backed securities were pledged as of June 30, 2012. The advances taken during fiscal year 2012 were used to purchase and warehouse mortgage-backed securities in Pool 2. The line of credit activity for the year ended June 30, 2012, is summarized as follows (in thousands):

Beginning Balance	Draws	Repayments	Ending Balance
$0	$25,000	$25,000	$0

The Agency is a party to various litigation arising in the ordinary course of business. While the ultimate effect of such actions cannot be predicted with certainty, the Agency expects that the outcome of these matters will not result in a material adverse effect on the financial position or results of operations of the Agency.

Subsequent Events

The Agency called for redemption subsequent to June 30, 2012 the following bonds (in thousands):

Program	Redemption Date	Par
Residential Housing Finance	July 1, 2012	$81,590
Residential Housing Finance	September 1, 2012	2,680
Homeownership Finance	July 1, 2012	15,700
Homeownership Finance	September 1, 2012	1,885
Rental Housing	July 16, 2012	4,470
Rental Housing	August 15, 2012	3,035
Rental Housing	September 14, 2012	1,545

On July 26, 2012 the Board of the Agency adopted a series resolution authorizing the issuance of $50.000 million bonds for the purpose of providing funds for certain of the Agency’s homeownership programs. The Homeownership Finance Bonds, 2012 Series A (GNMA Pass-Through Program) were delivered on August 28, 2012.

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MINNESOTA HOUSING FINANCE AGENCY
Supplementary Information (Unaudited)
General Reserve and Bond Funds
Five Year Financial Summary (in thousands)
Fiscal Years 2008– 2012

		2008	2009	2010	2011	2012
Loan Receivable, net (as of June 30	Multifamily programs	$ 346,509	$ 348,563	$ 334,565	$ 329,452	$ 339,306
	Homeownership programs	1,899,313	1,934,766	1,780,911	1,589,329	1,372,835
	Home Improvement programs	115,452	108,893	116,713	111,670	98,987
	Total	$2,361,274	$2,392,222	$2,232,189	$2,030,451	$1,811,128
Mortgage-backed securities net, at par (as of June 30)	Program mortgage-backed securities	$ -	$ -	$ 32,321	$ 349,676	$ 621,678
	Warehoused mortgaged-backed securities	-	-	107,330	49,688	5,081
	Total	$ -	$ -	$ 139,651	$ 399,364	$ 626,759
Bonds Payable, net (as of June 30)	Multifamily programs	$ 178,431	$ 162,288	$ 165,085	$ 172,692	$ 119,667
	Homeownership programs	2,217,945	2,296,445	2,524,422	2,372,722	2,040,422
	Home Improvement programs	15,000	15,000	15,000	10,000	10,000
	Total	$2,411,376	$2,473,733	$2,704,507	$2,555,414	$2,170,089
Mortgage-backed securities purchased, at par and loans purchased or originated during fiscal year	Multifamily programs	$ 30,169	$ 41,897	$ 20,874	$ 33,956	$ 51,091
	Homeownership programs	436,263	207,050	55,891	31,372	12,736
	Program and warehoused mortgage-backed securities	-	-	140,992	288,580	248,423
	Home Improvement programs	19,883	17,977	32,299	22,780	11,245
	Total	$ 486,315	$ 266,924	$250,056	$ 376,688	$ 323,495
Net Assets (as of June 30)	Total Net Assets*	$ 662,124	$ 668,242	$ 683,233	$ 683,638	$ 724,098
	Percent of total assets*	19.90%	20.20%	19.10%	19.90%	23.50%
Revenue over Expenses	Revenues over expenses*	$ 35,352	$ 6,118	$ 14,991	$ 14,305	$ 57,460

Notes:

* Excludes Pool 3

MINNESOTA HOUSING FINANCE AGENCY
Supplementary Information (Unaudited)
Statement of Net Assets (in thousands)
General Reserve and Bond Funds
As of June 30, 2012 (with comparative totals as of June 30, 2011)

			Bond Funds		
				Residential Housing Finance	
		General Reserve	Rental Housing	Bonds	Pool 2
Assets	Cash and cash equivalents	$90,544	$ 28,907	$ 203,821	$ 9,313
	Investments-program mortgage-backed securities	-	-	94,951	-
	Investment securities-other	5,204	14,186	48,855	97,759
	Loans receivable, net	-	167,823	1,313,275	286,915
	Interest receivable on loans and program mortgage-backed securities	-	878	10,230	1,681
	Interest receivable on investments	44	362	462	255
	Deferred loss on interest rate swap agreements	-	-	39,634	-
	FHA/VA insurance claims, net	-	-	8,519	802
	Real estate owned, net	-	-	15,379	187
	Unamortized bond issuance costs	-	1,274	8,385	-
	Capital assets, net	1,937	-	-	-
	Other assets	1,084	4	31	21
	Total assets	$98,813	$213,434	$1,743,542	$396,933
Liabilities	Bonds payable, net	$ -	$104,667	$1,503,509	$ -
	Interest payable	-	1,745	32,062	-
	Interest rate swap agreements	-	-	39,634	-
	Deferred revenue-service release fees	-	-	-	5,477
	Accounts payable and other liabilities	4,573	3,215	646	1,213
	Interfund payable (receivable)	565	(1,182)	45	17,888
	Funds held for others	73,562	-	-	-
	Total liabilities	78,700	108,445	1,575,896	24,578
	Commitments and contingencies				
Net Assets	Restricted by bond resolution	-	104,989	167,646	-
	Restricted by covenant	18,176	-	-	372,355
	Invested in capital assets	1,937	-	-	-
	Total net assets	20,113	104,989	167,646	372,355
	Total liabilities and net assets	$98,813	$213,434	$1,743,542	$396,933

Bond Funds: Single Family	Bond Funds: Home-ownership Finance	Bond Funds: Multifamily Housing	General Reserve & Bond Funds Excluding Pool 3 Total For The Year Ended June 30, 2012	General Reserve & Bond Funds Excluding Pool 3 Total For the Year Ended June 30, 2011	Residential Housing Finance Pool 3	General Reserve & Bond Funds Total For The Year Ended June 30, 2012	General Reserve & Bond Funds Total For The Year Ended June 30, 2011
$ -	$ 36,355	$ 1,198	$ 370,138	$ 469,765	$ 1,021	$ 371,159	$ 473,687
-	572,331	-	667,282	356,227	-	667,282	356,227
-	135	-	166,139	498,976	30,540	196,679	523,741
-	-	14,543	1,782,556	2,004,893	28,572	1,811,128	2,030,451
-	1,883	55	14,727	15,299	76	14,803	15,375
-	1	-	1,124	1,718	136	1,260	1,990
-	-	-	39,634	30,815	-	39,634	30,815
-	-	-	9,321	7,761	-	9,321	7,761
-	-	-	15,566	24,604	-	15,566	24,604
-	3,534	161	13,354	13,307	-	13,354	13,307
-	-	-	1,937	1,445	-	1,937	1,445
-	15	-	1,155	2,220	1	1,156	2,220
$ -	$614,254	$15,957	$3,082,933	$3,427,030	$ 60,346	$3,143,279	$3,481,623
$ -	$546,913	$15,000	$2,170,089	$2,555,414	$ -	$2,170,089	$2,555,414
-	9,142	38	42,987	46,799	-	42,987	46,799
-	-	-	39,634	30,815	-	39,634	30,815
-	-	-	5,477	3,634	-	5,477	3,634
-	38	75	9,760	14,922	74	9,834	15,019
-	10	-	17,326	13,602	(17,932)	(606)	(404)
-	-	-	73,562	78,206	-	73,562	78,206
-	556,103	15,113	2,358,835	2,743,392	(17,858)	2,340,977	2,729,483
-	58,151	844	331,630	281,199	-	331,630	281,199
-	-	-	390,531	400,994	78,204	468,735	469,496
-	-	-	1,937	1,445	-	1,937	1,445
-	58,151	844	724,098	683,638	78,204	802,302	752,140
$ -	$614,254	$15,957	$3,082,933	$3,427,030	$ 60,346	$3,143,279	$3,481,623

MINNESOTA HOUSING FINANCE AGENCY
Supplementary Information (Unaudited)
Statement of Revenues, Expenses and Changes in Net Assets (in thousands)
General Reserve and Bond Funds
Year ended June 30, 2012 (with comparative totals for year-ended June 30, 2011)

			Bond Funds		
				Residential Housing Finance	
		General Reserve	Rental Housing	Bonds	Pool 2
Revenues	Interest earned on loans	$ -	$ 13,152	$ 75,186	$ 19,489
	Interest earned on investments-program mortgage-backed securities	-	-	791	-
	Interest earned on investments-other	63	2,274	8,355	1,330
	Administrative reimbursement	21,622	-	-	-
	Fees earned and other income	8,865	505	-	850
	Unrealized gains (losses) on Investments	70	299	4,479	2,337
	Total revenues	30,620	16,230	88,811	24,006
Expenses	Interest	-	7,345	71,034	2
	Loan administration and trustee fees	-	171	3,890	1,252
	Administrative reimbursement	-	1,584	9,918	2,572
	Salaries and benefits	17,541	-	-	-
	Other general operating	5,236	-	-	-
	Reduction in carrying value of certain low interest rate deferred loans	-	(56)	-	(712)
	Provision for loan losses	-	(2,203)	24,565	(4,504)
	Total expenses	22,777	6,841	109,407	(1,390)
	Revenues over (under) expenses	7,843	9,389	(20,596)	25,396
Other changes	Non-operating transfer of assets between funds	(9,659)	443	89,595	(33,551)
	Change in net assets	(1,816)	9,832	68,999	(8,155)
Net Assets	Total net assets, beginning of year	21,929	95,157	98,647	380,510
	Total net assets, end of year	$20,113	$104,989	$167,646	$372,355

Bond Funds							
Single Family	Home-ownership Finance	Multifamily Housing	General Reserve & Bond Funds Excluding Pool 3 Total For The Year Ended June 30, 2012	General Reserve & Bond Funds Excluding Pool 3 Total For The Year Ended June 30, 2011	Residential Housing Finance Pool 3	General Reserve & Bond Funds Total For The Year Ended June 30, 2012	General Reserve & Bond Funds Total For The Year Ended June 30, 2011
$ 6,212	$ -	$655	$114,694	$123,164	$ 529	$115,223	$123,542
-	20,036	-	20,827	7,814	-	20,827	7,814
1,241	59	18	13,340	16,939	617	13,957	18,106
-	-	-	21,622	20,733	-	21,622	20,733
-	-	-	10,220	11,507	121	10,341	11,529
(26)	32,791	(3)	39,947	314	928	40,875	(903)
7,427	52,886	670	220,650	180,471	2,195	222,845	180,821
4,534	15,949	456	99,320	97,189	-	99,320	97,189
292	168	2	5,775	6,129	12	5,787	6,139
979	2,776	97	17,926	17,018	1,057	18,983	18,053
-	-	-	17,541	17,716	-	17,541	17,716
-	-	-	5,236	5,716	2,217	7,453	9,498
-	-	-	(768)	995	5,408	4,640	14,387
227	-	75	18,160	21,403	799	18,959	22,427
6,032	18,893	630	163,190	166,166	9,493	172,683	185,409
1,395	33,993	40	57,460	14,305	(7,298)	50,162	(4,588)
(72,470)	8,642	-	(17,000)	(13,900)	17,000	-	-
(71,075)	42,635	40	40,460	405	9,702	50,162	(4,588)
71,075	15,516	804	683,638	683,233	68,502	752,140	756,728
$ -	$58,151	$844	$724,098	$683,638	$78,204	$802,302	$752,140

Supplementary Information (Unaudited)
Statement of Cash Flows (in thousands)
General Reserve and Bond Funds
Year ended June 30, 2011 (with comparative totals for year ended June 30, 2010)

			Bond Funds		
				Residential Housing Finance	
		General Reserve	Rental Housing	Bonds	Pool 2
Cash flows from operating activities	Principal repayments on loans and program mortgage-backed securities	$ -	$ 30,110	$ 121,592	$ 45,712
	Investment in loans and program mortgage-backed securities	-	(11,536)	(61,531)	(33,488)
	Interest received on loans and program mortgage-backed securities	-	10,565	72,148	19,082
	Other operating	-	-	-	-
	Fees and other income received	9,104	505	-	6,208
	Salaries, benefits and vendor payments	(22,577)	(139)	(4,220)	(4,756)
	Administrative reimbursement from funds	21,547	(1,584)	(9,918)	(2,572)
	Deposits into funds held for others	31,297	-	-	-
	Disbursements made from funds held for others	(36,087)	-	-	-
	Interfund transfers and other assets	(1,593)	(1,182)	60	2,012
	Net cash provided (used) by operating activities	1,691	26,739	118,131	32,198
Cash flows from noncapital financing activities	Proceeds from sale of bonds and notes	-	8,965	153,538	25,000
	Principal repayment on bonds and notes	-	(62,295)	(531,940)	(25,000)
	Interest paid on bonds and notes	-	(7,719)	(75,122)	(2)
	Financing costs paid related to bonds issued	-	(134)	(2,170)	-
	Principal paid/received between funds	-	-	10,000	(10,000)
	Agency contribution to program funds	-	443	20,077	(19,467)
	Transfer of cash between funds	(9,631)	-	(36,235)	8,889
	Net cash provided (used) by noncapital financing activities	(9,631)	(60,740)	(461,852)	(20,580)
Cash flows from investing activities	Investment in real estate owned	-	-	(6,434)	(207)
	Interest received on investments	925	1,759	2,839	1,303
	Proceeds from sale of mortgage insurance claims/real estate owned	-	-	77,447	1,442
	Proceeds from maturity, sale or transfer of investment securities	40,020	90,997	361,460	289,146
	Purchase of investment securities	-	(63,374)	(82,960)	(328,522)
	Purchase of loans between funds	-	(12,195)	-	10,564
	Net cash provided (used) by investing activities	40,945	17,187	352,352	(26,274)

Bond Funds			General Reserve & Bond Funds Excluding Pool 3 Total For The Year Ended June 30, 2012	Residential Housing Finance Pool 3	General Reserve & Bond Funds Total For The Year Ended June 30, 2012	General Reserve & Bond Funds Total For The Year Ended June 30, 2011
Single Family	Home-ownership Finance	Multifamily Housing				
$ 10,884	$ 24,801	$ -	$ 233,099	$ 1,899	$ 234,998	$ 193,947
(23)	(234,640)	(15,000)	(356,218)	(14,721)	(370,939)	(404,510)
5,285	18,640	654	126,374	504	126,878	126,172
-	-	-	-	(2,144)	(2,144)	(3,686)
-	-	-	15,817	121	15,938	15,106
(316)	(188)	73	(32,123)	(109)	(32,232)	(29,775)
(979)	(2,776)	(97)	3,621	(1,057)	2,564	2,973
-	-	-	31,297	-	31,297	31,942
-	-	-	(36,087)	-	(36,087)	(35,135)
482	(2)	-	(223)	(593)	(816)	(1,022)
15,333	(194,165)	(14,370)	(14,443)	(16,100)	(30,543)	(103,988)
-	152,127	-	339,630	-	339,630	2,104,183
(97,505)	(6,230)	-	(722,970)	-	(722,970)	(2,251,945)
(6,957)	(10,438)	(452)	(100,690)	-	(100,690)	(96,654)
1,164	(1,959)	-	(3,099)	-	(3,099)	(3,382)
-	-	-	-	-	-	-
(2,742)	1,689	-	-	-	-	-
36,285	-	-	(692)	692	-	-
(69,755)	135,189	(452)	(487,821)	692	(487,129)	(247,798)
(611)	-	-	(7,252)	0	(7,252)	(5,064)
753	1,232	23	8,834	870	9,704	17,991
4,347	-	-	83,236	0	83,236	76,729
30,450	10,304	13,924	836,301	41,836	878,137	1,832,106
(18,605)	(9,940)	(13,450)	(516,851)	(33,825)	(550,676)	(1,712,998)
-	-	-	(1,631)	3,626	1,995	1,856
16,334	1,596	497	402,637	12,507	415,144	210,620

(Continued)

MINNESOTA HOUSING FINANCE AGENCY
Supplementary Information (Unaudited)
Statement of Cash Flows (in thousands)
General Reserve and Bond Funds (continued)
Year ended June 30, 2012 (with comparative totals for year ended June 30, 2011)

Reconciliation of revenue over (under) expenses to net cash provided (used) by operating activities

		Bond Funds	Residential Housing Finance	
	General Reserve	Rental Housing	Bonds	Pool 2
Revenues over (under) expenses	$ 7,843	$ 9,389	$(20,596)	$25,396
Adjustments to reconcile revenues over (under) expenses to net cash provided (used) by operating activities:				
Amortization of premiums (discounts) and fees on loans and program mortgage-backed securities	-	(104)	1,332	(411)
Depreciation	1,286	-	-	-
Realized losses (gains) on sale of securities, net	175	(737)	(3,033)	(42)
Unrealized losses (gains) on securities, net	(70)	(299)	(4,479)	(2,337)
Provision for loan losses	-	(2,203)	24,565	(4,504)
Reduction in carrying value of certain low interest rate and/or deferred loans	-	(56)	-	(712)
Capitalized interest on loans and real estate owned	-	-	(6,086)	(53)
Interest earned on investments	(238)	(2,038)	(5,123)	(1,288)
Interest expense on bonds and notes	-	7,345	71,034	2
Changes in assets and liabilities:				
Decrease (increase) in loans receivable and program mortgage backed securities, excluding loans transferred between funds	-	18,574	60,061	12,224
Decrease (increase) in interest receivable on loans	-	66	925	57
Increase (decrease) in arbitrage rebate liability	-	(2,048)	(199)	-
Increase (decrease) in accounts payable	(933)	30	(336)	1,853
Increase (decrease) in interfund payable, affecting operating activities only	(64)	(1,181)	(54)	2,023
Increase (decrease) in funds held for others	(4,790)	-	-	-
Other	(1,518)	1	120	(10)
Total	(6,152)	17,350	138,727	6,802
Net cash provided (used) by operating activities	$ 1,691	$26,739	$ 118,131	$32,198

Bond Funds						
Single Family	Home-ownership Finance	Multifamily Housing	General Reserve & Bond Funds Excluding Pool 3 Total For The Year Ended June 30, 2012	Residential Housing Finance Pool 3	General Reserve & Bond Funds Total For The Year Ended June 30, 2012	General Reserve & Bond Funds Total For The Year Ended June 30, 2011
$ 1,395	$ 33,993	$ 40	$ 57,460	$ (7,298)	$ 50,162	$ (4,588)
(753)	487	-	551	(25)	526	1,414
-	-	-	1,286	-	1,286	1,540
(345)	(23)	1	(4,004)	(1)	(4,005)	(16)
26	(32,791)	3	(39,947)	(928)	(40,875)	903
227	-	75	18,160	799	18,959	22,427
-	-	-	(768)	5,408	4,640	14,387
(336)	-	-	(6,475)	-	(6,475)	(8,576)
(634)	(36)	(19)	(9,376)	(616)	(9,992)	(17,397)
4,534	15,949	456	99,320	-	99,320	97,189
10,861	(209,839)	(15,000)	(123,119)	(12,822)	(135,941)	(210,563)
162	(1,883)	(1)	(674)	-	(674)	898
(262)	-	-	(2,509)	-	(2,509)	387
(28)	(27)	75	634	(23)	611	2,041
(63)	(2)	-	659	(593)	66	248
-	-	-	(4,790)	-	(4,790)	(3,193)
549	7	-	(851)	(1)	(852)	(1,089)
13,938	(228,158)	(14,410)	(71,903)	(8,802)	(80,705)	(99,400)
$15,333	$(194,165)	$(14,370)	$ (14,443)	$(16,100)	$ (30,543)	$(103,988)

Other Information

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APPENDIX B

CERTAIN FINANCIAL STATEMENTS OF THE AGENCY

(EXCLUDING STATE APPROPRIATED AND FEDERAL APPROPRIATED FUNDS)

AS OF DECEMBER 31, 2012

AND FOR THE SIX MONTHS THEN ENDED (UNAUDITED)

AS PREPARED BY THE AGENCY'S ACCOUNTING DEPARTMENT

DISCLAIMER

The following information with respect to the General Reserve, Homeownership Finance, Multifamily Housing, Rental Housing, Residential Housing Finance ("RHFB") excluding Pool 3, and RHFB Pool 3 (the "Funds") as of December 31, 2012 and for the six-month period then ended was prepared by the Agency, and, in the opinion of the Agency, includes all accounting adjustments necessary for a fair statement of the financial position and results of operations of these Funds as of December 31, 2012 and for the six-month period then ended, subject to year-end adjustments.

State and federal appropriated funds are excluded from this presentation because assets and revenues of these funds are not pledged or available to support bonds or other obligations of the Agency or its general obligation pledge in respect thereof.

Financial results for RHFB Pool 3 are reported separately from other Funds' results because the Agency has made no commitment to retain any net position balance in that fund. This fund is not pledged to the payment of any debt obligations of the Agency but, to the extent net position are available in this fund, they are generally available to pay any debt obligation of the Agency.

This presentation excludes management's discussion and analysis which is required by generally accepted accounting principles. This information has not been reviewed by independent auditors and is not accompanied by any opinion from them. The information in this Appendix B should be read in connection with the audited financial statements included in Appendix A, including the notes to those financial statements.

General Reserve & Bond Funds
Statement of Net Position
as of
December 31, 2012
(unaudited)
(with comparative totals as of December 31, 2011)
(in thousands)

		Bond Funds								
			Residential Housing Finance							
	General Reserve	Rental Housing	Bonds	Pool 2	Homeownership Finance Bonds	Multifamily Housing Bonds	General Reserve and Bond Funds Excluding Pool 3	RHFB Pool 3	Fiscal 2013 General Reserve and Bond Funds as of December 31, 2012	Fiscal 2013 General Reserve and Bond Funds as of December 31, 2011
Assets										
Cash and cash equivalents	$ 86,912	$ 26,105	$ 166,949	$ 16,407	$ 29,337	$ 1,206	$ 326,916	$ 6,226	$ 333,142	$ 463,127
Investments-program mortgage-backed securities	-	-	92,931	-	679,673	-	772,604	-	772,604	557,699
Investment securities-other	5,163	2,394	54,700	77,362	-	-	139,619	35,882	175,501	223,829
Loans receivable, net	-	167,877	1,200,836	291,295	-	14,486	1,674,494	31,936	1,706,430	1,941,702
Interest receivable on loans and program mortgage-backed securites	-	836	9,800	1,656	2,058	55	14,405	81	14,486	15,580 *
Interest receivable on investments	46	153	512	296	-	-	1,007	130	1,137	1,652 *
FHA/VA insurance claims, net	-	-	7,685	304	-	-	7,989	-	7,989	9,830
Real estate owned, net	-	-	13,886	51	-	-	13,937	-	13,937	20,521
Unamortized bond issuance costs	-	1,223	7,780	-	4,274	159	13,436	-	13,436	14,066
Capital assets, net	1,932	-	-	-	-	-	1,932	-	1,932	728
Other assets	1,246	2	15	7	8	-	1,278	1	1,279	1,392
Total assets	95,299	198,590	1,555,094	387,378	715,350	15,906	2,967,617	74,256	3,041,873	3,250,126
Deferred Outflows of Resources										
Deferred loss on interest rate swap agreements	-	-	38,266	-	-	-	38,266	-	38,266	39,798
Total assets and deferred outflows of resources	$ 95,299	$ 198,590	$ 1,593,360	$ 387,378	$ 715,350	$ 15,906	$ 3,005,883	$ 74,256	$ 3,080,139	$ 3,289,924
Liabilities										
Bonds payable, net	$ -	$ 85,889	$ 1,359,390	$ -	$ 636,198	$ 14,970	$ 2,096,447	$ -	$ 2,096,447	$ 2,324,042
Interest payable	-	1,592	31,319	-	8,846	38	41,795	-	41,795	47,504
Interest rate swap agreements	-	-	38,266	-	-	-	38,266	-	38,266	39,798
Deferred revenue-service release fees	-	-	-	6,400	-	-	6,400	-	6,400	4,604
Accounts payable and other liabilities	4,070	3,038	998	138	68	-	8,312	75	8,387	12,710
Interfund payable (receivable)	1,166	12	-	(1,419)	-	-	(241)	400	159	(1,060)
Funds held for others	71,056	-	-	-	-	-	71,056	-	71,056	74,363
Total liabilities and deferred inflows of resources	76,292	90,531	1,429,973	5,119	645,112	15,008	2,262,035	475	2,262,510	2,501,961
Commitments and contingencies										
Net Position										
Restricted by bond resolution	-	108,059	163,387	-	70,238	898	342,582	-	342,582	305,578
Restricted by covenant	17,075	-	-	382,259	-	-	399,334	73,781	473,115	481,657
Invested in capital assets	1,932	-	-	-	-	-	1,932	-	1,932	728
Total net position	19,007	108,059	163,387	382,259	70,238	898	743,848	73,781	817,629	787,963
Total liabilities and net position	$ 95,299	$ 198,590	$ 1,593,360	$ 387,378	$ 715,350	$ 15,906	$ 3,005,883	$ 74,256	$ 3,080,139	$ 3,289,924

* Amount restated to conform to current year presentation.

General Reserve & Bond Funds
Statement of Revenues, Expenses and Changes in Net Position
for the six months ended
December 31, 2012
(unaudited)
(with comparative totals for the six months ended December 31, 2011)
(in thousands)

	General Reserve	Bond Funds: Rental Housing	Bond Funds: Residential Housing Finance: Bonds	Bond Funds: Residential Housing Finance: Pool 2	Bond Funds: Homeownership Finance Bonds	Bond Funds: Multifamily Housing Bonds	General Reserve and Bond Funds Excluding Pool 3	RHFB Pool 3	Fiscal 2013 General Reserve and Bond Funds Six Months Ended December 31, 2012	Fiscal 2012 General Reserve and Bond Funds Six Months Ended December 31, 2011
Revenues										
Interest earned on loans	$ -	$ 5,107	$ 35,595	$ 9,655	$ -	$ 331	$ 50,688	$ 329	$ 51,017	$ 57,801
Interest earned on investments-program mortgage-backed securities	-	-	1,570	-	11,205	-	12,775	-	12,775	9,305
Interest earned on investments-other	64	319	1,950	1,009	-	-	3,342	177	3,519	6,246
Administrative reimbursement	9,813	-	-	-	-	-	9,813	-	9,813	10,812
Fees earned and other income	4,331	205	-	540	-	-	5,076	74	5,150	5,084
Unrealized gains (losses) on investments	-	9	1,339	6,685	3,509	-	11,542	(75)	11,467	29,678
Total revenues	14,208	5,640	40,454	17,889	14,714	331	93,236	505	93,741	118,926
Expenses										
Interest	-	2,168	31,941	11	9,260	227	43,607	-	43,607	49,435
Loan administration and trustee fees	-	60	1,905	676	141	1	2,783	8	2,791	2,944
Administrative reimbursement	-	661	5,018	1,284	1,720	49	8,732	544	9,276	9,405
Salaries and benefits	9,334	-	-	-	-	-	9,334	-	9,334	8,557
Other general operating	2,970	-	-	-	-	-	2,970	1,934	4,904	3,984
Reduction in carrying value of certain low interest rate deferred loans	-	(23)	-	(297)	-	-	(320)	2,057	1,737	626
Provision for loan losses	-	(296)	5,867	809	-	-	6,380	385	6,765	8,152
Total expenses	12,304	2,570	44,731	2,483	11,121	277	73,486	4,928	78,414	83,103
Revenues over (under) expenses	1,904	3,070	(4,277)	15,406	3,593	54	19,750	(4,423)	15,327	35,823
Other changes										
Non-operating transfer of assets between funds	(3,010)	-	18	(5,502)	8,494	-	-	-	-	-
Change in net position	(1,106)	3,070	(4,259)	9,904	12,087	54	19,750	(4,423)	15,327	35,823
Net Position										
Total net position, beginning of period	20,113	104,989	167,646	372,355	58,151	844	724,098	78,204	802,302	752,140
Total net position, end of period	$ 19,007	$ 108,059	$ 163,387	$ 382,259	$ 70,238	$ 898	$ 743,848	$ 73,781	$ 817,629	$ 787,963

Refer to disclaimer on page B-2.

General Reserve & Bond Funds
Statement of Cash Flows
for the six months ended
December 31, 2012
(unaudited)
(with comparative totals for the six months ended December 31, 2011)
(in thousands)

	General Reserve	Bond Funds: Rental Housing	Bond Funds: Residential Housing Finance: Bonds	Bond Funds: Residential Housing Finance: Pool 2	Bond Funds: Homeownership Finance Bonds	Bond Funds: Multifamily Housing	General Reserve and Bond Funds Excluding Pool 3	RHFB Pool 3	Fiscal 2013 General Reserve and Bond Funds Six Months Ended December 31, 2012	Fiscal 2012 General Reserve and Bond Funds Six Months Ended December 31, 2011
Cash flows from operating activities:										
Principal repayments on loans and program mortgage-backed securities	$ -	$ 15,095	$ 85,563	$ 18,836	$ 27,731	$ 61	$ 147,286	$ 826	$ 148,112	$ 103,733
Investment in loans and program mortgage-backed securities	-	(5,926)	(2,840)	(31,786)	(126,286)	-	(166,838)	(6,635)	(173,473)	(226,238)
Interest received on loans and program mortgage-backed securities	-	4,919	35,395	8,940	11,416	327	60,997	321	61,318	62,888 *
Other operating	-	-	-	-	-	-	-	(1,934)	(1,934)	(950)
Fees and other income received	4,195	205	-	6,940	-	-	11,340	74	11,414	9,989
Salaries, benefits and vendor payments	(11,556)	(89)	(2,142)	(7,224)	(117)	(76)	(21,204)	(6)	(21,210)	(18,195)
Administrative reimbursement from funds	10,177	(661)	(5,018)	(1,284)	(1,720)	(49)	1,445	(544)	901	744
Deposits into funds held for others	15,667	-	-	-	-	-	15,667	-	15,667	16,090
Disbursements made from funds held for others	(18,288)	-	-	-	-	-	(18,288)	-	(18,288)	(19,514)
Interfund transfers and other assets	(1,243)	1,182	(45)	(1,924)	(10)	-	(2,040)	1,098	(942)	142
Net cash provided (used) by operating activities	(1,048)	14,725	110,913	(7,502)	(88,986)	263	28,365	(6,800)	21,565	(71,311)
Cash flows from noncapital financing activities:										
Proceeds from sale of bonds and notes	-	-	157,669	53,000	125,000	-	335,669	-	335,669	177,127
Principal repayment on bonds and notes	-	(18,920)	(301,285)	(53,000)	(35,301)	(30)	(408,536)	-	(408,536)	(407,675)
Interest paid on bonds and notes	-	(2,128)	(31,696)	(11)	(9,629)	(225)	(43,689)	-	(43,689)	(47,900)
Financing costs paid related to bonds issued	-	(30)	(421)	-	(1,068)	-	(1,519)	-	(1,519)	(2,167)
Agency contribution to progam funds	-	-	18	(2,848)	2,830	-	-	-	-	-
Transfer of cash between funds	(2,901)	-	-	2,901	-	-	-	-	-	-
Net cash provided (used) by noncapital financing activities	(2,901)	(21,078)	(175,715)	42	81,832	(255)	(118,075)	-	(118,075)	(280,615)
Cash flows from investing activities:										
Investment in real estate owned	-	-	(2,433)	(249)	-	-	(2,682)	-	(2,682)	(3,953)
Interest received on investments	317	554	2,018	811	1	-	3,701	241	3,942	6,590 *
Proceeds from sale of mortgage insurance claims/real estate owned	-	-	33,963	833	-	-	34,796	-	34,796	40,080
Proceeds from maturity, sale or transfer of investment securities	-	14,945	2,229	183,476	135	-	200,785	16,108	216,893	622,199
Purchase of investment securities	-	(3,131)	(7,847)	(179,134)	-	-	(190,112)	(4,350)	(194,462)	(323,550)
Purchase of loans between funds	-	(8,817)	-	8,817	-	-	-	6	6	-
Net cash provided (used) by investing activities	317	3,551	27,930	14,554	136	-	46,488	12,005	58,493	341,366
Net increase (decrease) in cash and cash equivalents	(3,632)	(2,802)	(36,872)	7,094	(7,018)	8	(43,222)	5,205	(38,017)	(10,560)
Cash and cash equivalents:										
Beginning of period	90,544	28,907	203,821	9,313	36,355	1,198	370,138	1,021	371,159	473,687
End of period	$ 86,912	$ 26,105	$ 166,949	$ 16,407	$ 29,337	$ 1,206	$ 326,916	$ 6,226	$ 333,142	$ 463,127

* Amount restated to conform to current year presentation.

General Reserve & Bond Funds
Statement of Cash Flows, continued
for the six months ended
December 31, 2012
(unaudited)
(with comparative totals for the six months ended December 31, 2011)
(in thousands)

	General Reserve	Bond Funds: Rental Housing	Bond Funds: Residential Housing Finance: Bonds	Bond Funds: Residential Housing Finance: Pool 2	Bond Funds: Homeownership Finance Bonds	Bond Funds: Multifamily Housing Bonds	General Reserve and Bond Funds Excluding Pool 3	RHFB Pool 3	Fiscal 2013 General Reserve and Bond Funds Six Months Ended December 31, 2012	Fiscal 2012 General Reserve and Bond Funds Six Months Ended December 31, 2011
Reconciliation of revenue over (under) expenses to net cash provided (used) by operating activities:										
Revenues over (under) expenses	$ 1,904	$ 3,070	$ (4,277)	$ 15,406	$ 3,593	$ 54	$ 19,750	$ (4,423)	$ 15,327	$ 35,823
Adjustments to reconcile revenues over (under) expenses to net cash provided (used) by operating activities:										
Amortization of (discounts) premiums and fees on loans and program mortgage-backed securities	-	(75)	579	(705)	386	(4)	181	(3)	178	647
Depreciation	665	-	-	-	-	-	665	-	665	688
Realized (gains) on securities, net	-	(15)	(129)	(101)	-	-	(245)	-	(245)	(242)
Unrealized (gains) losses on securities, net	-	(9)	(1,339)	(6,685)	(3,509)	-	(11,542)	75	(11,467)	(29,678)
Provision for loan losses	-	(296)	5,867	809	-	-	6,380	385	6,765	8,152
Reduction in carrying value of certain low interest rate and/or deferred loans	-	(23)	-	(297)	-	-	(320)	2,057	1,737	626
Capitalized interest on loans and real estate owned	-	-	(2,647)	(35)	-	-	(2,682)	-	(2,682)	(3,462)
Interest earned on investments	(64)	(343)	(1,946)	(908)	-	-	(3,261)	(177)	(3,438)	(6,358)
Interest expense on bonds and notes	-	2,168	31,941	11	9,260	227	43,607	-	43,607	49,435
Changes in assets and liabilities:										
Decrease (increase) in loans receivable and program mortgage backed secuirities, excluding loans transferred between funds	-	9,169	82,723	(12,950)	(98,555)	61	(19,552)	(5,809)	(25,361)	(122,505)
Decrease (increase) in interest receivable on loans and program mortgage-backed securities	-	42	430	25	(175)	-	322	(5)	317	(1,451) *
Increase (decrease) in arbitrage rebate liability	-	(116)	(7)	-	-	-	(123)	-	(123)	404
Increase (decrease) in accounts payable	81	(31)	(253)	(152)	17	(75)	(413)	1	(412)	225
(Decrease) increase in interfund payable, affecting operating activities only	364	1,182	(45)	(1,934)	(10)	-	(443)	1,099	656	(661)
(Decrease) in funds held for others	(2,621)	-	-	-	-	-	(2,621)	-	(2,621)	(3,424)
Other	(1,377)	2	16	14	7	-	(1,338)	-	(1,338)	470
Total	(2,952)	11,655	115,190	(22,908)	(92,579)	209	8,615	(2,377)	6,238	(107,134)
Net cash provided (used) by operating activities	$ (1,048)	$ 14,725	$ 110,913	$ (7,502)	$ (88,986)	$ 263	$ 28,365	$ (6,800)	$ 21,565	$ (71,311)

* Amount restated to conform to current year presentation.

General Reserve & Bond Funds
Cash and Cash Equivalents
(unaudited)

Cash and Cash Equivalents

Cash and cash equivalents are stated at cost which approximates market value and comprise the following at December 31, 2012 (in thousands):

Funds	Deposits	Money Market Funds	State Investment Pool	Investment Agreements	Combined Totals
General Reserve	$ -	$ -	$ 86,912	$ -	$ 86,912
Rental Housing	-	18,600	-	7,505	26,105
Residential Housing Finance:					
Bonds	4,892	105,574	-	56,483	166,949
Pool 2	472	15,935	-	-	16,407
Homeownership Finance	-	29,337	-	-	29,337
Multifamily Housing	-	1,206	-	-	1,206
Subtotal	5,364	170,652	86,912	63,988	326,916
Residential Housing Finance:					
Pool 3	430	5,796	-	-	6,226
Total	$ 5,794	$ 176,448	$ 86,912	$ 63,988	$ 333,142

General Reserve & Bond Funds
Investment Securities
(unaudited)

Investment Securities

Investment securities (comprising US Treasuries, US Agencies, municipals, and mortgage-backed securities*) are recorded at fair market value and were allocated to the following funds at December 31, 2012 (in thousands):

Funds	Amortized Cost	Unrealized Appreciation in Fair Market Value	Estimated Fair Market Value
General Reserve	$ 5,011	$ 152	$ 5,163
Rental Housing	2,168	226	2,394
Residential Housing Finance:			
Bonds	139,010	8,621	147,631
Pool 2	75,253	2,109	77,362
Homeownership Finance	630,534	49,139	679,673
Multifamily Housing	-	-	-
Subtotal	851,976	60,247	912,223
Residential Housing Finance:			
Pool 3	34,520	1,362	35,882
Total	$ 886,496	$ 61,609	$948,105

*Mortgage-backed Securities Investments

Mortgage-backed securities (MBS) that are pledged as security for the payment of Agency bonds and are held in an acquisition account are presented as “Investments- program mortgage-backed securities” on the financial statements. The Agency may also hold non-program MBS which are included with “Investment securities-other.” All investments, including program and non-program MBS, are reported at fair market value on the statement of net position. The difference between the fair market value and the amortized cost is presented as “unrealized gains (losses) on securities” on the statement of revenues, expenses and changes in net position.

General Reserve & Bond Funds
Loans Receivable, net
(unaudited)

Loans Receivable, net

Loans receivable, net at December 31, 2012 consist of the following (in thousands):

Funds	Gross Loans Receivable	Allowance for Loan Losses	Unamortized (Discounts)/ Premiums	Loans Receivable, net
General Reserve	$ -	$ -	$ -	$ -
Rental Housing	174,380	(5,135)	(1,368)	167,877
Residential Housing Finance:				
Bonds	1,218,235	(23,465)	6,066	1,200,836
Pool 2	302,700	(4,371)	(7,034)	291,295
Homeownership Finance	-	-	-	-
Multifamily Housing	14,939	(75)	(378)	14,486
Subtotal	1,710,254	(33,046)	(2,714)	1,674,494
Residential Housing Finance:				
Pool 3	153,386	(121,006)	(444)	31,936
Total	$ 1,863,640	$ (154,052)	$ (3,158)	$ 1,706,430

Included in the table above are certain loans residing in RHFB Pool 3 that are originated at interest rates ranging from 0% to 5% and repayment of which is deferred for up to 30 years. These loans are generally in either a second or lower mortgage position or may be unsecured. Given the nature of these loans and the risk associated with them, at the time of origination most are fully reserved resulting in a net carrying value of zero.

General Reserve & Bond Funds
Bonds Payable, net
(unaudited)

Bonds Payable, net

Bonds payable, net at December 31, 2012 consist of the following (in thousands):

Funds	Par Bonds Outstanding	Net Unamortized Premium and Deferred Fees	Net Unamortized Deferred Loss	Bonds Payable, Net
General Reserve	$ -	$ -	$ -	$ -
Rental Housing	86,950	-	(1,061)	85,889
Residential Housing Finance:				
Bonds	1,356,720	3,513	(843)	1,359,390
Pool 2	-	-	-	-
Homeownership Finance	633,144	3,054	-	636,198
Multifamily Housing	14,970	-	-	14,970
Subtotal	2,091,784	6,567	(1,904)	2,096,447
Residential Housing Finance:				
Pool 3	-	-	-	-
Total	$ 2,091,784	$ 6,567	$ (1,904)	$ 2,096,447

Interest Rate Swaps

The Agency has entered into certain interest rate swap agreements that are considered to be derivative instruments under Governmental Accounting Standards Board Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* (GASB 53). A consultant has been engaged by the Agency to determine the fair value of these agreements and to evaluate their effectiveness as hedges as of December 31, 2012. The fair values approximate the termination payments that would have been due had the swaps been terminated as of December 31, 2012. In accordance with GASB 53, the Agency recorded the fair value of the agreements on the statement of net position. The fair values exclude accrued interest. As of December 31, 2012, all of the Agency's interest rate swap agreements have been determined to be effective hedges, as defined by GASB 53. The fair value is displayed on the statement of net position as a liability named "Interest rate swap agreements." The inception-to-date change in fair value as of December 31, 2012 is included in the deferred outflows of resources account identified as "Deferred loss on interest rate swap agreements."

Objective of Swaps

The Agency entered into interest rate swap agreements in connection with its issuance of variable rate mortgage revenue bonds under the Residential Housing Finance Bond Resolution from 2003 through 2009. Using variable-rate debt hedged with interest-rate swaps reduced the Agency's cost of capital at the time of issuance compared to using long-term fixed rate bonds and, in turn, enabled the Agency to reduce mortgage rates offered to the Agency's low- and moderate-income, first-time home buyers.

Terms of Swaps

Terms of the swaps, the fair values, changes in fair values, and the credit ratings of the two counterparties thereto as of December 31, 2012, are contained in the two tables below (in thousands). All swaps are pay-fixed, receive-variable. Initial swap notional amounts matched original principal amounts of the associated debt. The Agency's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximate scheduled or anticipated reductions in outstanding principal amounts of the associated bond series. With respect to the outstanding swaps (except for the 2009 F swap), the Agency has also purchased the right, generally based upon a 300% PSA prepayment rate (The Standard Prepayment Model of The Securities Industry and Financial Markets Association and formerly the Public Securities Association) on the underlying mortgage loans, to further reduce the notional balances of the swaps as necessary to match the outstanding principal amount of the associated bond series and, except for the 2003B, 2003J, 2004G, and 2009F swaps, the right to terminate the swaps at par at approximately the 10-year anniversary date of the swap. The Agency also has the right to terminate outstanding swaps in whole or in part at fair value at any time if it is not in default thereunder.

General Reserve & Bond Funds
Interest Rate Swaps
(unaudited)
Counterparty: The Bank of New York Mellon

Moody's Aa1 (stable outlook)/Standard & Poor's AA- (negative outlook)

Associated Bond Series	Notional Amount as of December 31, 2012	Effective Date	Swap Maturity Date	Fixed Rate Payable	Variable Rate Receivable	Fair Value[1] as of December 31, 2012	Increase (Decrease) in Fair Value since Fiscal Year Ended June 30, 2012
RHFB 2003B	$ 25,000	July 23, 2003	January 1, 2033	3.532%	65% of 1 month LIBOR* plus 0.23% per annum	$ (1,864)	$ (46)
RHFB 2003J	19,425	October 15, 2003	July 1, 2033	4.183%	65% of 1 month LIBOR* plus 0.23% per annum	(2,387)	36
RHFB 2005C	17,315	March 2, 2005	January 1, 2035	3.587%	64% of 1 month LIBOR* plus 0.28% per annum	(889)	208
RHFB 2005I	27,635	June 2, 2005	January 1, 2036	3.570%	64% of 1 month LIBOR* plus 0.28% per annum	(1,857)	322
RHFB 2005M	40,305	August 4, 2005	January 1, 2036	3.373%	64% of 1 month LIBOR* plus 0.29% per annum	(2,565)	435
RHFB 2006C	22,775	March 21, 2006	January 1, 2037	3.788%	64% of 1 month LIBOR* plus 0.29% per annum	(1,956)	247
RHFB 2007S	18,975	December 19, 2007	July 1, 2038	4.340%	100% of SIFMA** Index plus 0.06% per annum	(2,127)	(48)
RHFB 2007T (Taxable)	24,980	December 19, 2007	July 1, 2026	4.580%	100% of 1 month LIBOR*	(2,717)	331
Counterparty Total	$ 196,410					$ (16,362)	$ 1,485

General Reserve & Bond Funds
Interest Rate Swaps
(unaudited)

Counterparty: Royal Bank of Canada

Moody's Aa3 (stable outlook)/Standard & Poor's AA- (stable outlook)

Associated Bond Series	Notional Amount as of December 31, 2012	Effective Date	Swap Maturity Date	Fixed Rate Payable	Variable Rate Receivable	Fair Value[1] as of December 31, 2012	Increase (Decrease) in Fair Value since Fiscal Year Ended June 30, 2012
RHFB 2004G	$ 28,230	July 22, 2004	January 1, 2032	4.165%	64% of 1 month LIBOR* plus 0.26% per annum	$ (3,216)	$ (190)
RHFB 2007E (Taxable)	11,560	March 7, 2007	July 1, 2038	5.738%	100% of 1 month LIBOR*	(2,121)	(227)
RHFB 2007J (Taxable)	17,695	May 17, 2007	July 1, 2038	5.665%	100% of 1 month LIBOR*	(3,289)	(321)
RHFB 2008C	40,000	August 7, 2008	July 1, 2048	4.120%	64% of 1 month LIBOR* plus 0.30% per annum	(5,304)	262
RHFB 2009C	40,000	February 12, 2009	July 1, 2039	3.070%	64% of 3 month LIBOR* plus 0.30% per annum	(6,952)	215
RHFB 2009F	25,010	December 1, 2009	September 12, 2017	2.365%	100% of weekly SIFMA**plus 0.80% per annum	(1,022)	145
Counterparty Total	$ 162,495					$ (21,904)	$ (116)
Combined Totals	$ 358,905					$ (38,266)	$ (1,369)

[1] A positive fair value represents money due to the Agency by the counterparty upon an assumed termination of the swap while a negative fair value represents the amount payable by the Agency

* London Inter-Bank Offered Rate
** Securities Industry and Financial Markets Association

Termination Risk

The swap contracts may be terminated by either party if the other party fails to perform under the terms of the contract or upon certain termination events. Upon termination at market, a payment is due by one party based upon the fair value of the swap even if the payment is owed to a defaulting party. The potential termination risks to the Agency are the liability for a termination payment to the counterparty or the inability to replace the swap upon favorable financial terms, in which event the variable rate bonds would no longer be hedged. To reduce the risk of termination, swap contracts generally limit counterparty terminations to the following Agency actions or events: payment default, other defaults that remain uncured for 30 days after notice, substantial impairment of credit ratings, bankruptcy and insolvency.

Credit Risk

A swap potentially exposes the Agency to credit risk with the counterparty. The fair value of a swap represents the Agency's current potential credit exposure to the swap counterparty assuming the occurrence of a termination event. As of December 31, 2012, the Agency did not have a net credit risk exposure to either of its two counterparties because their respective combined swap positions had a negative net fair value, as set forth in the foregoing tables. Each of the swap agreements requires that, upon demand, a party post collateral to secure its obligation to make a termination payment to the extent the fair value exceeds a collateral threshold specified in the agreement. The collateral threshold for each counterparty and the Agency is $50 million if the ratings on the unsubordinated, unsecured long-term indebtedness of the counterparty, in the case of the counterparty, or the hedged bonds, in the case of the Agency, are not less than "AA-" and "Aa3" from Standard & Poor's and Moody's, respectively, $5 million if the ratings are not less than "A+" and "A1", $3 million if the ratings are not less than "A" and "A2", and $0, if either rating is lower. These bilateral requirements are established to mitigate potential credit risk exposure. As of December 31, 2012, neither the Agency nor any counterparty had been required to post collateral.

Amortization Risk

The Agency is subject to amortization risk because prepayments from the mortgage loan portfolio may cause the outstanding principal amount of variable rate bonds to decline faster than the amortization of the notional amount of the swap. To ameliorate amortization risk, termination options were structured within most of the outstanding swaps to enable the Agency to manage the outstanding balances of variable rate bonds and notional swap amounts. (See *Terms of Swaps*) Additionally, the Agency may terminate outstanding swaps in whole or in part at fair value at any time if it is not in default thereunder.

Basis Risk

The potential for basis risk exists when variable interest payments on the Agency's bonds do not equal variable interest receipts payable by the counterparty under the associated swap. The variable rate the Agency pays on its bonds resets weekly, but the variable rate received on its swaps is based upon a specified percentage of the one-month or three-month taxable LIBOR rate or the SIFMA index rate, plus a specified spread if the swap relates to tax-exempt bonds. Basis risk will vary over time due to inter-market conditions. As of December 31, 2012, the interest rate on the Agency's variable rate tax-exempt debt ranged from 0.13% to 0.15% per annum while the variable interest rate on the associated swaps ranged from 0.19% to 0.49% per annum. As of December 31, 2012, the interest rate on the Agency's variable rate taxable debt was 0.21% per annum while the variable interest rate on the corresponding swaps was 0.21% per annum. In order to reduce the cumulative effects of basis risk on the swaps relating to tax-exempt variable rate debt, the determination of the spread from one-month LIBOR, or three-month LIBOR payable by the counterparty under the swap was based upon a regression analysis of the long-term relationship between one-month LIBOR, or three-month LIBOR and the tax-exempt variable rate SIFMA index (which ordinarily would approximate the weekly variable rate on the Agency's tax-exempt variable rate bonds).

Tax Risk

The structure of the variable interest rate payments the Agency receives from its LIBOR-based swap contracts relating to tax-exempt variable rate bonds is based upon the historical long-term relationship between taxable and tax-exempt short-term interest rates. Tax risk represents the risk that may arise due to a change in the tax code that may fundamentally alter this relationship. The Agency chose to assume this risk at the time the swaps were entered into because it was not economically favorable to transfer to the swap counterparties.

APPENDIX C

MORTGAGE INSURANCE PROGRAMS AND STATE LAWS AFFECTING FORECLOSURES

The following description of certain mortgage insurance programs is only a brief outline and does not purport to summarize or describe all of the provisions of these programs. For a more complete description of the terms of these programs, reference is made to the provisions of the insurance and guaranty contracts embodied in regulations of the Federal Housing Administration ("FHA"), Rural Development ("RD") and the Veterans Administration ("VA"), respectively, and of the regulations, master insurance contracts and other such information of the various private mortgage insurers. Program Loans purchased by the Agency are not limited by the Resolutions to the foregoing programs and it is possible that insurance benefits under other federal or private programs in which the Agency may participate could be more or less favorable.

While all Program Loans are subject to the applicable mortgage insurance programs, Program Loans that back Program Securities are further guaranteed by GNMA, Fannie Mae or Freddie Mac as further described in Appendix F to this Supplement.

Federal Housing Administration Single-Family Mortgage Insurance Programs

The National Housing Act of 1934, as amended, authorizes various FHA mortgage insurance programs, which differ in some respects depending primarily upon whether the mortgaged premises contain five or more dwelling units or less than five such units.

The regulations governing all of the FHA programs under which the mortgage loans may be insured provide that insurance benefits are payable upon foreclosure (or other acquisition of possession) and conveyance of the mortgaged premises to the Department of Housing and Urban Development ("HUD").

Under some of the FHA insurance programs, insurance claims are paid by HUD in cash, unless the mortgage holder specifically requests payment in debentures issued by HUD. Under others, HUD has the option, at its discretion, to pay insurance claims in cash or in such debentures. The current HUD policy, subject to change at any time, is to make insurance payments on single family mortgage loans in cash, with respect to all programs covering such units as to which it has discretion to determine the form of insurance payment.

HUD debentures issued in satisfaction of FHA insurance claims bear interest at the HUD debenture interest rate in effect under HUD regulations on the date of the mortgage insurance commitment or of the initial insurance endorsement of the mortgage, whichever rate is higher. The HUD debenture interest rates applicable to the FHA insured mortgages which the Agency has acquired or committed to acquire are in most cases lower than the interest rates of such mortgages.

When entitlement to insurance benefits results from foreclosure (or other acquisition of possession) and conveyance, the insurance payment is computed as of the date of institution of foreclosure proceedings or acquisition of the property. The mortgage holder generally is not compensated for mortgage interest accrued and unpaid prior to that date. Under such circumstances, the amount of insurance benefits generally paid by FHA is equal to the unpaid principal amount of the mortgage loan, adjusted to reimburse the mortgagee for certain tax, insurance and similar payments made by it and to deduct certain amounts received or retained by the mortgagee after default, plus reimbursement not to exceed 2/3 of the mortgagee's foreclosure costs. The regulations under all insurance programs described above provide that the insurance payment itself bears interest from the date of default, to the date of payment of the claim at the same interest rate as the applicable HUD debenture interest rate determined in the manner set forth above.

When any property to be conveyed to HUD has been damaged by fire, earthquake, flood or tornado, or, if the property has suffered damage because of failure of the mortgage holder to take action to inspect and preserve the property, it is generally required, as a condition to payment of an insurance claim, that such property be repaired by the mortgage holder prior to such conveyance or assignment. For mortgages insured on or after April 19, 1992, if the property has been damaged during the mortgage holder's possession by events other than fire, flood, earthquake or tornado notwithstanding reasonable action by the mortgage holder, HUD may require the mortgage holder to repair the property prior to conveyance to HUD as a condition to payment of an insurance claim.

Veterans Administration Guaranty Program

The Serviceman's Readjustment Act of 1944, as amended, permits a veteran (or, in certain instances, his or her spouse) to obtain a mortgage loan guaranteed by the VA covering mortgage financing of the purchase of a one to four family dwelling unit at interest rates agreed upon by the purchaser and the mortgagee, as the VA may elect. The program has no mortgage loan limits (other than that the amount may not exceed the property's reasonable value as determined by the VA), requires no down payment from the purchaser and permits the guaranty of mortgage loans with terms of up to 30 years. The guaranty provisions for mortgage loans are as follows: (a) for home and condominium loans of $45,000 or less, 50% of the loan is guaranteed (for loans with an original principal balance of $45,000 and not more than $56,250, the guaranty will not exceed $22,500); (b) for home and condominium loans of more than $56,250 but less than or equal to $144,000, 40% of the loan is guaranteed subject to a maximum guaranty of $36,000; (c) for home and condominium loans of more than $144,000, 25% of the principal amount of the loan is guaranteed subject to a maximum guarantee amount hereinafter described; and (d) for loans for manufactured homes, 40% of the loan is guaranteed (with a maximum guaranty of $20,000). The maximum guaranty amount for loans greater than $144,000 is generally 25% of the Freddie Mac conforming loan limit (currently $417,000); however, pursuant to the Housing and Economic Recovery Act of 2008 and the Veterans Benefits Improvement Act of 2008, the maximum guaranty amount for such loans originated in 2009 through 2011 is 25% of the greater of (i) the Freddie Mac conforming loan limit or (ii) 125% of the area median price for a single family residence in the county in which the property securing the loan is located. The liability on the guaranty is reduced or increased pro rata with any reduction or increase in the amount of the indebtedness, but in no event will the amount payable on the guaranty exceed the amount of the original guaranty. Notwithstanding the dollar and percentage limitations of the guaranty, a mortgage holder will ordinarily suffer a monetary loss only where the difference between the unsatisfied indebtedness and the proceeds of a foreclosure sale of mortgaged premises is greater than the original guaranty as adjusted. The VA may, at its option and without regard to the guaranty, make full payment to a mortgage holder of unsatisfied indebtedness on a mortgage upon its assignment to the VA.

Rural Development (RD) Insured Program

Loans insured by RD may be made to purchase new or existing homes in designated rural areas. Eligible rural areas have a population not in excess of 10,000 persons or if located outside a Metropolitan Statistical Area, not in excess of 25,000. Loans may be made up to 100% of the market value of the property or 100% of the acquisition cost, whichever is less. The maximum loan amount is the applicable FHA maximum loan amount. The interest rate of these 30 year mortgages may not exceed the higher of the current VA rate or the Fannie Mae required net yield for 90 day commitments on a 30 year fixed rate mortgage with actual/actual remittance plus 60 basis points. RD covers all losses on foreclosed loans up to 35% of the original principal. Any loss in excess of this amount carries an 85% guarantee. It is the present administrative policy of the Agency to tender a claim to RD by the earlier of (a) six months after the date of acquisition of the property through foreclosure or (b) 30 days after the sale of the property. The Agency retains title to the property and may apply the insurance proceeds and any sale proceeds to the outstanding debt.

Private Mortgage Insurance Programs

Under outstanding Series Resolutions, all Program Loans insured by a private mortgage insurance company are to be in any amount not exceeding the Market Value of the Home, provided that the Agency is issued a mortgage insurance policy under which the minimum insured percentage of any claim filed is at least equal to that percentage of the Market Value or sale price of the Home, whichever is less, by which the original principal amount of the mortgage exceeds 80% of such Market Value. Each private mortgage insurer insuring such Program Loans must be a company (a) that is licensed to do business in Minnesota; (b) that has ratings not less than "A2" from Moody's Investors Service, Inc., and "AA" from Standard & Poor's Ratings Services, or that is approved to insure mortgages purchased by Fannie Mae and Freddie Mac, or any other agency or instrumentality of the United States to which the powers of either of them have been transferred or which has similar powers to purchase Program Loans; and (c) that, by insuring Program Loans financed by the Agency, does not cause the Rating on the Bonds to be adversely affected. Both Fannie Mae and Freddie Mac require approval of private mortgage insurance companies before mortgages insured by those companies are eligible for purchase by them.

Among the considerations taken into account by Fannie Mae in determining whether to approve a private mortgage insurer currently are the following: (a) experienced mortgage insurers are expected to have policyholders' surplus of not less than $5 million; (b) it is preferred that an insurer's principal insurance activity relate to loss resulting from nonpayment of mortgages and deeds of trust on residential structures, with total liability not in excess of 25 times its policyholders' surplus; (c) a private mortgage insurer must demonstrate that it possesses the technical expertise necessary to properly evaluate property and credit; and (d) an insurer must expressly consent to and comply with Fannie Mae's requirements for audit and reports concerning changes in personnel, financial structure, qualifications, and rates.

Freddie Mac eligibility requirements for approving private mortgage insurers presently provide that (a) not more than 10% of an insurer's mortgage insurance risk may be represented by mortgage insurance covering property other than real property improved by a building or buildings designed for occupancy by one to four families; (b) an insurer shall not insure mortgages secured by properties in a single housing tract or contiguous tracts where the insurance risk applicable thereto is in excess of 10% of its policyholders' surplus (net of reinsurance); (c) no insurer shall have more than 20% of its total insurance in force in any one Standard Metropolitan Statistical Area nor may any combination of insurance in force in any one state exceed 60% of its total insurance in force; and (d) an insurer shall limit its insurance risk with respect to each insured to the maximum permitted under state law.

Freddie Mac also requires the private mortgage insurer to meet the following financial requirements: (a) policyholders' surplus must be maintained at not less than $5 million; (b) an insurer shall maintain an unearned premium reserve computed on a monthly pro rata basis; if a greater unearned premium reserve is required by the state where the insurer is licensed, then such greater requirement shall be met; (c) an insurer shall establish and maintain a contingency reserve in an amount equal to 50% of earned premiums; (d) an insurer shall maintain a loss reserve for claims incurred but not reported, including estimated losses on insured mortgages which have resulted in the conveyance of property which remains unsold, mortgages in the process of foreclosure or mortgages in default for four or more months; (e) an insurer shall maintain no less than 85% of its total admitted assets in the form of marketable securities or other highly liquid investments which qualify as insurance company investments under the laws and regulations of the state of its domicile and the standards of the National Association of Insurance Commissioners; and (f) an insurer shall not at any time have total insurance risk outstanding in excess of 25 times its policyholders' surplus. Approved private mortgage insurers must file quarterly and annual reports with the Freddie Mac.

It has been the administrative policy of the Agency to require that any private mortgage insurance policy with respect to a Program Loan to be purchased with the proceeds of Bonds contain provisions substantially as follows: (a) the private mortgage insurer must pay a claim, including unpaid principal, accrued interest and certain expenses, within sixty days of presentation of the claim by the mortgage lender; (b) for a mortgage lender to present a claim, the mortgage lender must have acquired, and tendered to the insurer, title to the property, free and clear of all liens and encumbrances, including any right of redemption by the mortgagor; (c) when a claim is presented, the insurer will have the option of paying the claim in full, taking title to the property and arranging for its sale, or of paying the insured percentage of the claim (the Agency's exposure is to be limited to 70% or 75%, depending on the initial loan-to-value ratio of the mortgage loan) and allowing the insured lender to retain title to the property.

The private mortgage insurance companies providing mortgage insurance on outstanding Program Loans under the Bond Resolution are identified in Appendix D to this Supplement. There is no assurance that any private mortgage insurance company will be able or willing to honor its obligations under the mortgage insurance policy as provided therein. In particular, certain private mortgage insurance companies have recently experienced substantial financial difficulties and ratings downgrades, and some are in receivership and are paying claims at the rate of 50 cents on the dollar. No representation is made as to the creditworthiness of any private mortgage insurance company.

State Laws Affecting Foreclosures

Mortgage foreclosures in Minnesota are governed by statute and permit two alternative methods, "by action" or "by advertisement." The latter is normally utilized since it is slightly faster, less expensive, and does not have the same tendency to invite contest as does foreclosure by action. The process is normally initiated by the publication, recordation and service of a notice of foreclosure. This notice must include all relevant information on the mortgage loan and the secured premises as well as a statement of the time and place of sale and the time allowed by law for redemption by the mortgagor. This notice must then be published in a legal newspaper each week for six consecutive weeks. Service of the notice on the mortgagor and any other affected party must be completed at least four weeks prior to the designated date of the foreclosure sale. Compliance with the above publication and service of notice requirements within the prescribed time limitations is essential to the validity of the mortgage foreclosure sale.

Prior to the foreclosure sale, the mortgagor has the right to reinstate the mortgage and prevent foreclosure by curing all defaults on a current basis and by paying attorneys' fees and out-of-pocket disbursements to the extent permitted by statute. If the mortgage is not reinstated, the foreclosure sale is held in the sheriff's office in the county in which the real estate being foreclosed is located. Although anyone can bid at a foreclosure sale, the normal result of the foreclosure sale is that the lien holder bids in the debt without competing bidders (and under the Bond Resolution, the Agency is required to do so), and purchases the mortgaged property from the defaulting borrower through the sheriff, subject to the rights of the borrower and subsequent creditors to redeem.

The holding of such foreclosure sale starts the period of redemption. The period of redemption will normally be six months but can be as long as twelve months. During the period of redemption the mortgagor normally retains the right to remain in possession of the mortgaged property without making mortgage payments or paying real estate taxes. During the period of redemption, the mortgagor has the right to pay off the entire indebtedness, including full principal, accrued interest, any amounts reasonably paid by the mortgagee to preserve the security, and attorneys' fees and disbursements to the extent allowed by statute.

After the period of redemption expires, the mortgagee is entitled to possession of the premises, but may have to bring an unlawful detainer proceeding to enforce its possessory rights, and a proceeding subsequent in the case of Torrens property to perfect its title to the mortgaged property.

It is not unusual, therefore, for a mortgagee to be delayed 10 months or more from the date of initiation of the mortgage foreclosure proceeding until it realizes its possessory rights.

APPENDIX D

CERTAIN INFORMATION RELATING TO THE RHFB WHOLE LOAN MORTGAGE PORTFOLIO

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Mortgage Insurance for RHFB Whole Loan Mortgage Portfolio as of December 31, 2012

Series	FHA	VA	Rural Development	MGIC	Genworth	Other Private Mortgage Insurers*	Uninsured	Total
Retired	$ 37,309,932	$ 1,812,863	$ 11,634,466	$ 1,098,995	$ 1,134,265	$ 1,230,954	$ 7,728,485	$ 61,949,960
03AB	12,351,428	179,553	7,267,992	1,356,574	467,515	1,692,507	4,171,962	27,487,531
03IJ	7,432,269	535,021	5,528,325	565,245	542,754	1,958,015	2,317,114	18,878,743
04ABC	16,830,226	1,484,328	11,689,995	3,270,352	1,573,967	4,950,779	8,648,076	48,447,723
04EFG	8,220,531	1,001,620	12,995,881	8,775,982	1,603,837	2,171,317	8,008,583	42,777,751
05ABC	5,884,705	204,834	6,428,781	8,612,445	645,453	1,834,850	4,466,377	28,077,445
05GHI	8,307,004	396,757	14,470,074	11,522,800	1,411,544	3,583,324	6,954,432	46,645,935
05JKLM	19,714,522	1,315,553	20,192,173	13,351,447	2,827,870	9,856,636	13,679,288	80,937,489
05OP	8,804,451	271,759	7,896,888	4,808,544	1,376,841	6,194,030	8,363,658	37,716,171
06ABC	8,995,094	797,405	8,589,422	6,292,534	3,032,847	6,108,563	8,945,422	42,761,287
06FGH	6,298,377	529,129	8,167,184	4,192,283	2,171,793	6,744,727	9,176,539	37,280,032
06FGH-40 Year	-	-	-	782,554	-	2,401,292	987,371	4,171,217
06IJ	8,005,491	274,603	15,627,111	11,383,003	5,211,042	6,487,434	10,337,068	57,325,752
06IJ-40 Year	-	-	425,921	5,855,268	2,202,694	3,921,586	2,725,591	15,131,060
06LMN	2,293,746	318,375	5,923,463	8,999,064	5,218,490	2,883,358	3,837,907	29,474,403
06LMN-40 Year	-	-	-	3,184,392	1,153,271	1,207,472	1,132,583	6,677,718
07CDE	3,473,181	326,934	7,823,847	14,549,108	9,704,582	6,594,311	5,278,702	47,750,665
07CDE-40 Year	-	-	-	5,627,339	1,528,573	3,980,059	1,885,491	13,021,462
07HIJ	3,831,101	724,276	9,588,091	28,241,831	14,854,642	9,871,580	5,379,486	72,491,007
07HIJ-40 Year	-	-	-	9,190,546	3,325,529	3,170,286	2,864,448	18,550,809
07LM	7,020,270	713,549	11,212,738	26,357,011	19,222,382	13,487,549	6,161,831	84,175,330
07LM-40 Year	-	-	-	11,875,243	2,676,964	5,652,179	2,585,827	22,790,213
07PQRST	7,905,167	399,271	6,749,183	17,667,989	6,393,556	11,311,363	3,771,772	54,198,301
07PQRST-40 Year	-	-	-	7,774,462	3,027,984	2,353,090	1,226,459	14,381,995
08ABC	20,436,384	136,093	10,877,057	5,035,203	2,390,995	4,034,763	5,447,551	48,358,046
08ABC-40 Year	-	-	-	8,326,309	1,059,146	2,548,757	2,956,733	14,890,945
09ABC	30,833,983	686,075	9,881,934	4,164,664	1,752,449	3,738,417	4,614,215	55,671,737
09ABC-40 Year	-	-	121,548	4,100,746	360,202	2,585,062	2,643,747	9,811,305
09DEF	64,484,915	1,016,134	10,710,618	604,203	370,825	309,075	12,531,734	90,027,504
12ABCD	41,591,240	1,454,015	20,502,858	2,893,965	2,329,470	2,082,091	13,795,211	84,648,850
Total	$ 330,024,017	$ 14,578,147	$ 224,305,550	$ 240,460,101	$ 99,571,482	$ 134,945,426	$ 172,623,663	$ 1,216,508,386
	27.12%	1.20%	18.44%	19.77%	8.19%	11.09%	14.19%	100.00%

*Other Private Mortgage Insurers consists of Republic 5.28%, United 2.62%, PMI 1.80%, Radian Guarantee Fund 0.62%, Commonwealth 0.49%, Triad 0.16%, Amerin 0.10%, GMAC 0.02%.

RHFB Whole Loan Mortgage Portfolio
Delinquency and Foreclosure Statistics as of December 31, 2012

			Payments Past Due as a Percentage of the Number of Loans Outstanding								
			30-59 Days		60-89 Days		90-119 Days		120 Days and Greater and Foreclosures[1]		Total [2]
Bond Financed:	Number of Loans	Balance Outstanding	#	%	#	%	#	%	#	%	%
Retired	1,397.0	$61,949,960	124.0	8.88	42.0	3.01	16.0	1.15	52.0	3.72	7.87
03AB	342.5	27,487,531	23.0	6.72	4.0	1.17	3.0	0.88	12.0	3.50	5.55
03IJ	231.5	18,878,743	25.5	11.02	5.0	2.16	2.0	0.86	10.0	4.32	7.34
04ABC	717.5	48,447,723	64.5	8.99	12.5	1.74	10.0	1.39	36.5	5.09	8.22
04EFG	450.5	42,777,751	31.0	6.88	8.5	1.89	5.0	1.11	21.0	4.66	7.66
05ABC	276.5	28,077,445	10.0	3.62	9.0	3.25	3.0	1.08	12.5	4.52	8.86
05GHI	456.0	46,645,935	35.0	7.68	7.0	1.54	7.0	1.54	28.5	6.25	9.32
05JKLM	833.0	80,937,489	43.0	5.16	16.0	1.92	10.0	1.20	42.0	5.04	8.16
05OP	369.5	37,716,171	20.0	5.41	7.0	1.89	3.0	0.81	15.5	4.19	6.90
06ABC	410.5	42,761,287	25.5	6.21	6.0	1.46	5.0	1.22	37.0	9.01	11.69
06FGH	347.0	37,280,032	21.0	6.05	10.0	2.88	7.0	2.02	21.0	6.05	10.95
06FGH-40 Year	27.0	4,171,217	-	-	1.0	3.70	-	-	5.0	18.52	22.22
06IJ	579.5	57,325,752	31.0	5.35	12.0	2.07	7.5	1.29	40.0	6.90	10.27
06IJ-40 Year	98.0	15,131,060	3.0	3.06	3.0	3.06	4.0	4.08	9.0	9.18	16.33
06LMN	276.0	29,474,403	14.5	5.25	6.0	2.17	3.5	1.27	13.0	4.71	8.15
06LMN-40 Year	44.0	6,677,718	2.0	4.55	2.0	4.55	-	-	8.0	18.18	22.73
07CDE	413.0	47,750,665	29.0	7.02	5.0	1.21	5.5	1.33	26.5	6.42	8.96
07CDE-40 Year	88.0	13,021,462	7.0	7.95	3.0	3.41	1.0	1.14	10.0	11.36	15.91
07HIJ	583.0	72,491,007	34.5	5.92	10.5	1.80	7.0	1.20	48.0	8.23	11.23
07HIJ-40 Year	120.0	18,550,809	12.0	10.00	1.0	0.83	-	-	12.0	10.00	10.83
07LM	718.5	84,175,330	49.5	6.89	12.5	1.74	6.5	0.90	49.0	6.82	9.46
07LM-40 Year	150.0	22,790,213	12.0	8.00	2.0	1.33	2.0	1.33	21.0	14.00	16.67
07PQRST	444.0	54,198,301	27.5	6.19	8.5	1.91	6.5	1.46	29.5	6.64	10.02
07PQRST-40 Year	97.0	14,381,995	3.0	3.09	2.0	2.06	2.0	2.06	10.0	10.31	14.43
08ABC	451.0	48,358,046	27.0	5.99	12.0	2.66	6.0	1.33	19.0	4.21	8.20
08ABC-40 Year	106.0	14,890,945	6.0	5.66	-	-	2.0	1.89	12.0	11.32	13.21
09ABC	548.0	55,671,737	40.5	7.39	8.5	1.55	8.5	1.55	38.5	7.03	10.13
09ABC-40 Year	78.0	9,811,305	1.0	1.28	-	-	1.0	1.28	3.0	3.85	5.13
09DEF	1,232.5	90,027,504	81.5	6.61	33.5	2.72	16.0	1.30	58.5	4.75	8.76
12ABCD	1,270.0	84,648,850	90.5	7.13	30.5	2.40	14.0	1.10	60.0	4.72	8.23
Total Bond Financed	13,155.0	$ 1,216,508,386	894.0	6.80	280.0	2.13	164.0	1.25	760.0	5.78	9.15

All Loans are serviced by US Bank Home Mortgage.

If the number of loans allocated to a series of Bonds in the table is expressed in an increment of 0.5, the allocation reflects the fact that proceeds of Bonds of the series were used, with an equal amount of funds from another source (which may be another series of Bonds) to purchase the mortgage loan. In such cases, while principal repayments and prepayments are allocated equally to each funding source, interest payments on the mortgage loan are not allocated pro rata.

(1) Included in "Foreclosures" are loans for which the sheriff's sale has been held and the redemption period (generally six months) has not yet elapsed in addition to those customarily included in delinquency statistics.

(2) 30-59 days not included in total.

See page D-3 for comparative delinquency and foreclosure statistics.

Comparative 60+ Day Delinquency Statistics[1]	**At 09/30/2012**	**At 12/31/2012**
Residential Housing Finance Bond Resolution Loan Portfolio	8.20%*	7.08%*
Mortgage Bankers Association of America, Minnesota[2]	2.52%	not yet available
Mortgage Bankers Association of America, National[2]	4.08%	not yet available

Comparative Foreclosure Statistics[3]	**At 09/30/2012**	**At 12/31/2012**
Residential Housing Finance Bond Resolution Loan Portfolio	0.61%*	1.42%*
Mortgage Bankers Association of America, Minnesota[2]	1.78%	not yet available
Mortgage Bankers Association of America, National[2]	3.08%	not yet available

(1) This table compares 60+ day delinquency statistics. The delinquency rates do not include those delinquent loans referred to an attorney, where the first legal documents have been filed, or where any further foreclosure proceedings have occurred. Thus, the percentage for the Residential Housing Finance Bond Resolution loan portfolio differs from that in the table on page D-2.

(2) Mortgage Bankers Association of America average of 60+ days delinquency and foreclosure statistics adjusted by the Agency to reflect the proportions of insurance types in the Residential Housing Finance Bond Resolution loan portfolio. The unadjusted 9/30/12 Mortgage Bankers Association of America average 60+ days delinquency rate is 1.75% Minnesota and 2.89% national. The unadjusted 9/30/12 Mortgage Bankers Association of America foreclosure rate is 1.40% Minnesota and 2.64% national. None of the delinquency and foreclosure rates presented are seasonally adjusted. Reprinted by permission of the Mortgage Bankers Association. For more information, contact the Mortgage Bankers Association, 1331 L Street NW, Washington D.C. 20005, (202) 557-2700 http://www.mortgagebankers.org

(3) This table compares foreclosure statistics, where "foreclosures" include only those loans referred to an attorney and with the first legal documents filed, but not loans for which a foreclosure sale has been held. Thus, the percentage for the Residential Housing Finance Bond Resolution loan portfolio is not directly comparable to the table on page D-2.

*The 60+ day delinquency rate and the foreclosure rate have experienced substantial volatility since June 30, 2012. The Agency believes that this is attributable in substantial part to diminished servicing activity in late summer 2012 resulting from efforts by the servicer, in response to regulatory directives, to standardize and restructure its collection and foreclosure activities and then renewed efforts beginning in October 2012 to process the backlog of files. As a result, as of September 30, 2012 the 60+ delinquency rate was overstated and the number of loans in foreclosure was understated compared to what they would have been given normal servicing activities.

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APPENDIX E

CERTAIN INFORMATION RELATING TO LIQUIDITY FACILITIES FOR BONDS OUTSTANDING

as of January 31, 2013

(unaudited)

Liquidity Provider	Related Bond Series	Bonds Outstanding	Expiration Date
Royal Bank of Canada	2003 Series B	$ 22,595,000	7/17/2015
	2003 Series J	15,395,000	7/17/2015
	2004 Series G	27,295,000	7/17/2015
	2005 Series C	16,830,000	7/17/2015
	2005 Series I	26,805,000	7/17/2015
		$108,920,000	
State Street Bank and Trust Company	2007 Series E	$11,110,000	3/21/2013
	2007 Series J	17,005,000	3/21/2013
	2007 Series S	18,975,000	3/21/2013
	2007 Series T	23,080,000	3/21/2013
		$70,170,000	
Federal Home Loan Bank of Des Moines	2008 Series C	$ 40,000,000	8/07/2015
	2009 Series C	40,000,000	2/12/2016
	2009 Series F	22,390,000	12/1/2016
		$102,390,000	
Wells Fargo Bank, National Association	2005 Series M	$38,950,000	7/17/2015

With respect to the liquidity facilities provided by State Street Bank and Trust Company identified above which have expiration dates of March 21, 2013, the Agency expects to replace such liquidity facilities before the March 21, 2013 expiration dates with liquidity facilities provided by Wells Fargo Bank, National Association.

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APPENDIX F

CERTAIN INFORMATION RELATING TO GNMA, FANNIE MAE, FREDDIE MAC AND CERTAIN PROGRAM SECURITIES AND THE MASTER SERVICER

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION MORTGAGE-BACKED SECURITIES

This summary does not purport to be comprehensive and is qualified in its entirety by reference to the GNMA Mortgage-Backed Securities Guide and to the documents referred to herein for full and complete statements of their provisions. Additional information is available at www.ginniemae.gov.

The Government National Mortgage Association is a wholly owned corporate instrumentality of the United States within the Department of Housing and Urban Development with its principal office in Washington, D.C.

Each GNMA Security is to be issued under either the GNMA I Program or the GNMA II Program. Although there are a number of differences between GNMA I Securities and GNMA II-Custom Pool Securities, those differences do not adversely affect the availability of Revenues with which to pay principal of and interest on Outstanding Bonds. Each GNMA Security is to be backed by a pool of mortgage loans in a minimum aggregate amount of $25,000 and multiples of $1 in excess of $25,000. The Master Servicer is required to pay to the Trustee (in the case of a GNMA I Security) or to the Central Paying and Transfer Agent (in the case of a GNMA II-Custom Pool Security), and such Central Paying and Transfer Agent shall be required to pay to the Trustee, as the owner of the GNMA Security, the regular monthly installments of principal and interest on the mortgage loans backing the GNMA Security (less such Master Servicer's servicing fee, which includes the GNMA guaranty fee), whether or not the Master Servicer receives such installments, plus any mortgage prepayments received by the Master Servicer in the previous month. The Government National Mortgage Association guarantees the timely payment of the principal of and interest on the GNMA Security.

In order to issue GNMA Securities, the Master Servicer must first apply to and receive from the Government National Mortgage Association a commitment to guarantee securities. Such a commitment authorizes the Master Servicer to issue GNMA Securities up to a stated amount during a one-year period following the date of the commitment. The Master Servicer is required to pay the application fee to the Government National Mortgage Association for such commitments. The amount of commitments to guarantee GNMA Securities that the Government National Mortgage Association can approve in any federal fiscal year is limited by statute and administrative procedures. The total annual amount of available commitments is established in appropriation acts and related administrative procedures.

The issuance of each GNMA Security by the Master Servicer is subject to the following conditions, among others: (i) the purchase by the Master Servicer of mortgage loans in a minimum aggregate principal amount at least equal to the minimum size permitted by the Government National Mortgage Association for each GNMA Security (such origination being subject, among other conditions, to the availability of FHA mortgage insurance and VA guarantees), (ii) the submission by the Master Servicer to the Government National Mortgage Association of certain documents required by the Government National Mortgage Association in form and substance satisfactory to the Government National Mortgage Association, (iii) the Master Servicer's continued compliance, on the date of issuance of the GNMA Security, with all of the Government National Mortgage Association's eligibility requirements, specifically including, but not limited to, certain net worth requirements, (iv) the Master Servicer's continued approval by the Government National Mortgage Association to issue GNMA Securities, and (v) the Master Servicer's continued ability to issue, execute and deliver the GNMA Security, as such ability may be affected by such Master Servicer's bankruptcy, insolvency or reorganization. In addition, the issuance of a GNMA Security by the Master Servicer is subject to the condition that the Government National Mortgage Association must have entered into a guaranty agreement with the Master Servicer. The conditions to the Government National

Mortgage Association entering into such an agreement may change from time to time, and there can be no assurance that the Master Servicer will be able to satisfy all such requirements in effect at the time a GNMA Security is to be issued. Moreover, there can be no assurance that all of the above conditions will be satisfied at the time a GNMA Security is to be issued by the Master Servicer for purchase by the Trustee.

GNMA Security

The Government National Mortgage Association is authorized by Section 306(g) of Title III of the National Housing Act of 1934, as amended (the "Housing Act") to guarantee the timely payment of the principal of, and interest on, securities that are based on and backed by a pool composed of, among other things, mortgage loans insured by FHA under the Housing Act or guaranteed by the VA under the Servicemen's Readjustment Act of 1944, as amended. Section 306(g) further provides that "[T]he full faith and credit of the United States is pledged to the payment of all amounts which may be required to be paid under any guaranty under this subsection." An opinion dated December 9, 1969, of an Assistant Attorney General of the United States states that such guarantees under Section 306(g) of mortgage-backed securities of the type to be delivered to the Trustee by the Lenders are authorized to be made by the Government National Mortgage Association and "would constitute general obligations of the United States backed by its full faith and credit."

Government National Mortgage Association Borrowing Authority

In order to meet its obligations under such guaranty, the Government National Mortgage Association, in its corporate capacity under Section 306(d) of Title III of the Housing Act, may issue its general obligations to the United States Treasury (the "Treasury") in an amount outstanding at any one time sufficient to enable the Government National Mortgage Association, with no limitations as to amount, to perform its obligations under its guaranty of the timely payment of the principal of and interest on the GNMA Securities. The Treasury is authorized to purchase any obligations so issued by the Government National Mortgage Association and has indicated in a letter dated February 13, 1970, from the Secretary of the Treasury to the Secretary of Housing and Urban Development ("HUD") that the Treasury will make loans to the Government National Mortgage Association, if needed, to implement the aforementioned guaranty.

The Government National Mortgage Association is to warrant to the Trustee, as the owner of the GNMA Securities, that, in the event it is called upon at any time to honor its guaranty of the payment of principal and interest on any GNMA Security, it shall, if necessary, in accordance with the aforesaid Section 306(d), apply to the Treasury Department of the United States for a loan or loans in amounts sufficient to make such payment.

Servicing of the Mortgage Loans

Under contractual arrangements that will be entered into by and between the Master Servicer and the Government National Mortgage Association, and pursuant to the Program Documents, the Master Servicer is responsible for servicing and otherwise administering the mortgage loans in accordance with generally accepted practices of the mortgage lending industry and the Government National Mortgage Association Servicer's Guide.

The monthly remuneration of the Master Servicer, for its servicing and administrative functions, and the guaranty fee charged by the Government National Mortgage Association, are based on the unpaid principal amount of the GNMA Securities outstanding. In compliance with the Government National Mortgage Association regulations and policies, the total of these servicing and guaranty fees equals 0.25%, calculated on the principal balance of each GNMA Security outstanding on the last day of the month preceding such calculation. Each GNMA Security carries an interest rate that is fixed at 0.25% below the interest rate on the underlying mortgage loans because the servicing and guaranty fees are deducted from payments on the mortgage loans before such payments are forwarded to the Trustee.

It is expected that interest and principal payments on the mortgage loans received by the Master Servicer will be the source of money for payments on the GNMA Securities. If such payments are less than the amount then due, the Master Servicer is obligated to advance its own funds to ensure timely payment of all scheduled payments of principal and interest due on the GNMA Securities. The Government National Mortgage Association guarantees such timely payment in the event of the failure of the Master Servicer to pass through an amount equal to such scheduled payments (whether or not made by the mortgagors).

The Master Servicer is required to advise the Government National Mortgage Association in advance of any impending default on scheduled payments so that the Government National Mortgage Association, as guarantor, will be able to continue such payments as scheduled on the third business day after the twentieth day of each month. However, if such payments are not received as scheduled, the Trustee has recourse directly to the Government National Mortgage Association.

Guaranty Agreement

The Government National Mortgage Association guaranty agreement to be entered into by the Government National Mortgage Association and the Master Servicer upon issuance of a GNMA Security, pursuant to which the Government National Mortgage Association guarantees the payment of principal of and interest on such GNMA Security (the "GNMA Guaranty Agreement"), provides that, in the event of a default by the Master Servicer, including (i) a failure to make any payment due under the GNMA Security, (ii) a request to the Government National Mortgage Association to make a payment of principal or interest on a GNMA Security and the utilization thereof by the Master Servicer, (iii) insolvency of the Master Servicer, or (iv) default by the Master Servicer under any other terms of the GNMA Guaranty Agreement, the Government National Mortgage Association has the right, by letter to the Master Servicer, to effect and complete the extinguishment of the Master Servicer's interest in the mortgage loans, and the mortgage loans shall thereupon become the absolute property of the Government National Mortgage Association, subject only to the unsatisfied rights of the owner of the GNMA Security. In such event, the GNMA Guaranty Agreement provides that on and after the time the Government National Mortgage Association directs such a letter of extinguishment to the Master Servicer, the Government National Mortgage Association shall be the successor in all respects to the Master Servicer in its capacity under the GNMA Guaranty Agreement and the transaction and arrangements set forth or arranged for therein, and shall be subject to all responsibilities, duties, and liabilities (except the Master Servicer's indemnification of the Government National Mortgage Association), theretofore placed on the Master Servicer by the terms and provisions of the GNMA Guaranty Agreement, provided that at any time the Government National Mortgage Association may enter into an agreement with any other eligible issuer of GNMA Securities under which the latter undertakes and agrees to assume any part or all such responsibilities, duties or liabilities theretofore placed on the Master Servicer, and provided that no such agreement shall detract from or diminish the responsibilities, duties or liabilities of the Government National Mortgage Association in its capacity as guarantor of the GNMA Security, or otherwise adversely affect the rights of the owner thereof.

Payment of Principal of and Interest on the GNMA Securities

Regular monthly installment payments on each GNMA Security are required to begin on the fifteenth day (in the case of a GNMA I Security) and on the nineteenth day, or the twentieth day if the nineteenth day is not a business day (in the case of a GNMA II-Custom Pool Security), of the first month following the date of issuance of such GNMA Security and will be equal to the aggregate amount of the scheduled monthly principal and interest payments on each mortgage loan in the mortgage pool backing the GNMA Security, less the monthly servicing and guaranty fees of one-twelfth of 0.25% of the outstanding principal balance. In addition, each payment is required to include any mortgage prepayments on mortgage loans underlying the GNMA Security.

FANNIE MAE MORTGAGE-BACKED SECURITIES

General

The following summary of the Fannie Mae MBS Program (as defined below), the Fannie Mae Securities, Fannie Mae's mortgage purchase and servicing standards and other documents referred to herein does not purport to be complete and is qualified in its entirety by reference to Fannie Mae's Prospectus, as defined below, the Fannie Mae Single Family Selling and Servicing Guides and the other documents referred to herein.

Fannie Mae is subject to the supervision and regulation of the Federal Housing Finance Agency to the extent provided in the Housing and Economic Recovery Act of 2008. The FHFA has placed Fannie Mae into conservatorship.

Information on Fannie Mae and its financial condition is contained in Fannie Mae's most current annual report on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K that are filed with the Securities and Exchange Commission (the "SEC"). Fannie Mae files reports, proxy statements and other information with the SEC. Materials that it files with the SEC are also available from the SEC's website, "www.sec.gov." In addition, these materials may be inspected, without charge, and copies may be obtained at prescribed rates, at the SEC's Public Reference Room at 100 F Street, NE, Room 1580, Washington, DC 20549. Investors may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The periodic reports filed by Fannie Mae with the SEC are also available on Fannie Mae's website at http://www.fanniemae.com/ir/sec or from Fannie Mae at the Office of Investor Relations at 202-752-7115. The Agency takes no responsibility for information contained in these documents or on these websites.

Fannie Mae

Fannie Mae is a government-sponsored enterprise that was chartered by the U.S. Congress in 1938, organized and existing under the Federal National Mortgage Association Charter Act, 12 U.S.C. 1716 et seq. (the "Charter"). Fannie Mae has a public mission to support liquidity and stability in the secondary mortgage market, where existing mortgage loans are purchased and sold. Fannie Mae securitizes mortgage loans originated by lenders in the primary mortgage market into mortgage-backed securities ("Fannie Mae MBS"), which can then be bought and sold in the secondary mortgage market. Fannie Mae also participates in the secondary mortgage market by purchasing mortgage loans (often referred to as "whole loans") and mortgage-related securities, including Fannie Mae MBS, for Fannie Mae's mortgage portfolio. In addition, Fannie Mae makes other investments to increase the supply of affordable housing, however, pursuant to the Charter, Fannie Mae may not lend money directly to consumers in the primary mortgage market. *Although Fannie Mae is a corporation chartered by the U.S. Congress, the conservator of Fannie Mae is a U.S. Government agency, and the United States Department of Treasury ("Treasury") owns senior preferred stock and a warrant to purchase common stock of Fannie Mae, the U.S. Government (including Treasury) does not guarantee, directly or indirectly, the securities or other obligations of Fannie Mae.*

On September 6, 2008, the Director of the Federal Housing Finance Agency ("FHFA"), the safety, soundness and mission regulator of Fannie Mae, placed Fannie Mae into conservatorship and appointed FHFA as the conservator. As the conservator, FHFA succeeded to all rights, titles, powers and privileges of Fannie Mae, and of any stockholder, officer or director of Fannie Mae with respect to Fannie Mae and the assets of Fannie Mae. As such, FHFA has the authority to conduct all business of Fannie Mae. Pursuant to the Housing and Economic Recovery Act of 2008, FHFA, as conservator, may take "such action as may be necessary to put the regulated entity in a sound and solvent condition." Fannie Mae has no control over FHFA's actions or the actions it may direct Fannie Mae to take. The conservatorship has no specified termination date; Fannie Mae does not know when or how the conservatorship will be terminated. In addition, the Board of Directors of Fannie Mae does not have any fiduciary duties to any person or entity except to FHFA, as conservator. Accordingly, the Board of Directors is not obligated to consider the interests of Fannie Mae or the stockholders of Fannie Mae unless specifically directed to do so by FHFA, as conservator. The United States Department of Housing and Urban Development, however, remains Fannie Mae's regulator with respect to fair lending matters.

Mortgage-Backed Security Program

Fannie Mae has implemented a mortgage-backed securities program pursuant to which Fannie Mae issues securities backed by pools of mortgage loans (the "MBS Program"). **The obligations of Fannie Mae, including its obligations under the Fannie Mae Securities, are obligations solely of Fannie Mae and are not guaranteed by the United States Government (including Treasury) and do not constitute a debt or obligation of the United States or any agency or instrumentality thereof, including Treasury and FHFA, other than Fannie Mae.**

The terms of the MBS Program are governed by the Fannie Mae Selling and Servicing Guides (the "Fannie Mae Guides"), as modified by the Pool Purchase Contract, and, in the case of mortgage loans such as the Program Loans exchanged with Fannie Mae, a Trust Indenture dated as of November 1, 1981, as amended (the "Trust Indenture"), and a supplement thereto to be issued by Fannie Mae in connection with each pool. The MBS Program is further described in a prospectus issued by Fannie Mae (the "Fannie Mae Prospectus"). The Fannie Mae Prospectus is updated from time to time.

Copies of the Fannie Mae Prospectus and Fannie Mae's most recent annual and quarterly reports and proxy statements are available without charge from Fannie Mae, 3900 Wisconsin Avenue, N.W., Washington, D.C. 20016, Attention: Vice President for Investor Relations, (telephone: (202) 752-6724).

Pool Purchase Contract

It is expected that Fannie Mae and the Master Servicer will enter into a Pool Purchase Contract, pursuant to which the Master Servicer will be permitted to deliver, and Fannie Mae will agree to purchase mortgage loans in exchange for, Fannie Mae Securities. The purpose of the Pool Purchase Contract is to provide for certain additions, deletions and changes to the Fannie Mae Guides relating to the purchase of mortgage loans. In the event of a conflict between the Pool Purchase Contract and the Fannie Mae Guides, the Pool Purchase Contract will control. The description set forth below assumes that the Pool Purchase Contract will be executed substantially in the form presented by Fannie Mae to the Master Servicer as of the date hereof.

Under the Pool Purchase Contract, Fannie Mae will purchase both mortgage loans eligible under the guidelines set forth in the Fannie Mae Guides and mortgage loans insured under the Community Home Buyer's Program which conform to the conditions set forth in the Pool Purchase Contract.

Pursuant to the requirements of the Fannie Mae Guides, as amended, the original principal balance of each mortgage loan to be sold to Fannie Mae may not exceed the amount established from time to time by Fannie Mae. The mortgage loans must be mortgage loans with loan-to-value ratios not in excess of 100%; mortgage loans with loan-to-value ratios exceeding 80% must have the principal amount of the indebtedness in excess of 75% of the appraised value of the home insured by a policy of primary mortgage insurance. The provider of the mortgage insurance must be acceptable to Fannie Mae.

Under the Pool Purchase Contract, the 100% loan-to-value limitation for mortgage loans will be based upon the lower of (1) the acquisition cost plus rehabilitation cost, if any, of a home, or (2) the appraised value of a home after completion of any rehabilitation. The maximum combined loan-to-value ratio is also 100% where subordinate financing is provided, so long as the mortgage loan does not exceed a 75% loan-to-value ratio. The Pool Purchase Contract also provides that, in underwriting mortgage loans for the Community Home Buyer's Program, certain exceptions will be made from the Fannie Mae Guides for down payment requirements and for determining whether a household's income satisfies the requirements for purchase by Fannie Mae.

The Pool Purchase Contract obligates the Master Servicer to service the mortgage loans in accordance with the requirements of the Fannie Mae Guides and the Pool Purchase Contract.

Fannie Mae Securities

Each Fannie Mae Security will represent the entire interest in a specified pool of mortgage loans purchased by Fannie Mae from the Master Servicer and identified in records maintained by Fannie Mae. The Pool Contract requires that each Fannie Mae Security be in a minimum amount of $250,000 (or, in each case, such lesser amounts as may be approved by Fannie Mae). The mortgage loans backing each Fannie Mae Security are to bear interest at a rate higher than each Fannie Mae Security (the "pass-through rate"). The difference between the interest rate on the mortgage loans and the pass-through rate on the Fannie Mae Security is to be collected by the Master Servicer and used to pay the Master Servicer's servicing fee and Fannie Mae's guaranty fee.

Fannie Mae will guarantee to the registered holder of the Fannie Mae Securities that it will distribute amounts representing scheduled principal and interest at the applicable pass-through rate on the mortgage loans in the pools represented by such Fannie Mae Securities, whether or not received, and the full principal balance of any foreclosed or other finally liquidated mortgage loan, whether or not such principal balance is actually received. **The obligations of Fannie Mae under such guarantees are obligations solely of Fannie Mae and are not backed by, nor entitled to the faith and credit of the United States. If Fannie Mae were unable to satisfy such obligations, distributions to the Trustee, as the registered holder of the Fannie Mae Securities, would consist solely of payments and other recoveries on the underlying mortgage loans and, accordingly, monthly distributions to the Trustee, as the holder of the Fannie Mae Securities, and payments on Outstanding Bonds would be affected by delinquent payments and defaults on such mortgage loans**.

Payments on the Mortgage Loans; Distributions on the Fannie Mae Securities

Payments on a Fannie Mae Security will be made on the 25th day of each month (beginning with the month following the month such Fannie Mae Security is issued), or, if such 25th day is not a business day, on the first business day next succeeding such 25th day. With respect to each Fannie Mae Security, Fannie Mae will distribute to the Trustee an amount equal to the total of (i) the principal due on the mortgage loans in the related pool underlying such Fannie Mae Security during the period beginning on the second day of the month prior to the month of such distribution and ending on the first day of such month of distribution, (ii) the stated principal balance of any mortgage loan that was prepaid in full during the second month next preceding the month of such distribution (including as prepaid for this purpose at Fannie Mae's election any mortgage loan repurchased by Fannie Mae because of Fannie Mae's election to repurchase the mortgage loan after it is delinquent, in whole or in part, with respect to four consecutive installments of principal and interest; or because of Fannie Mae's election to repurchase such mortgage loan under certain other circumstances), (iii) the amount of any partial prepayment of a mortgage loan received in the second month next preceding the month of distribution, and (iv) one month's interest at the pass-through rate on the principal balance of the Fannie Mae Security as reported to the Trustee (assuming the Trustee is the registered holder) in connection with the previous distribution (or, respecting the first distribution, the principal balance of the Fannie Mae Security on its issue date).

For purposes of distributions, a mortgage loan will be considered to have been prepaid in full if, in Fannie Mae's reasonable judgment, the full amount finally recoverable on account of such mortgage loan has been received, whether or not such full amount is equal to the stated principal balance of the mortgage loan. Fannie Mae may, in its discretion, include with any distribution principal prepayments, both full and partial, received during the month prior to the month of distribution but is under no obligation to do so.

FREDDIE MAC MORTGAGE-BACKED SECURITIES

General

The following summary of the Freddie Mac Guarantor Program, the Freddie Mac Securities, Freddie Mac's mortgage purchase and servicing standards and other documents referred to herein does not purport to be complete and is qualified in its entirety by reference to Freddie Mac's Mortgage Participation Certificates Offering Circular, applicable Offering Circular Supplements, Freddie Mac's Information Statement, any Information Statement Supplements, the Freddie Mac Securities and any other documents made available by Freddie Mac. Copies of the Offering Circular, Information Statement and any supplements to those documents and other information can be obtained by calling Freddie Mac's Investor Inquiry Department (telephone (800) 336-3672) or by accessing Freddie Mac's World Wide Web site. Freddie Mac is a publicly traded company listed on the New York Stock Exchange (symbol: FRE). The Agency takes no responsibility for any such information.

Freddie Mac is subject to the supervision and regulation of the FHFA to the extent provided in the federal Housing and Economic Recovery Act of 2008. The FHFA has placed Freddie Mac into conservatorship.

Information on Freddie Mac and its financial condition is contained in annual, quarterly and current reports, proxy statements and other information that Freddie Mac files with the SEC. You may read and copy any document Freddie Mac files with the SEC at the SEC's public reference room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. These SEC filings are also available to the public from the SEC's website at http://www.sec.gov. The Agency takes no responsibility for information contained in these documents or on these websites.

Freddie Mac

Freddie Mac is a shareholder-owned government-sponsored enterprise created on July 24, 1970 pursuant to the Federal Home Loan Mortgage Corporation Act, Title III of the Emergency Home Finance Act of 1970, as amended, 12 U.S.C. §§ 1451-1459 (the "Freddie Mac Act"). Freddie Mac's statutory mission is (i) to provide stability in the secondary market for residential mortgages; (ii) to respond appropriately to the private capital market; (iii) to provide ongoing assistance to the secondary market for residential mortgages (including activities relating to mortgages on housing for low- and moderate-income families involving a reasonable economic return that may be less than the return earned on other activities); and (iv) to promote access to mortgage credit throughout the United States (including central cities, rural areas and underserved areas) by increasing the liquidity of mortgage financing. Neither the United States nor any agency or instrumentality of the United States is obligated, either directly or indirectly, to fund the mortgage purchase or financing activities of Freddie Mac or to guarantee Freddie Mac's securities or obligations.

Freddie Mac's principal business consists of the purchase of (i) first-lien, conventional residential mortgages subject to certain maximum loan limits and other underwriting requirements under the Freddie Mac Act and (ii) securities backed by such mortgages. Freddie Mac finances its mortgage purchases and mortgage-backed securities purchases through the issuance of a variety of securities, primarily pass-through mortgage participation certificates and unsecured debt, as well as with cash and equity capital.

On September 7, 2008, the Director of the Federal Housing Finance Agency ("FHFA") appointed FHFA as conservator of Freddie Mac in accordance with the Federal Housing Finance Reform Act of 2008 (the "Reform Act") and the Federal Housing Enterprises Financial Safety and Soundness Act of 1992. On September 7, 2008, in connection with the appointment of FHFA as conservator, Freddie Mac and the U.S. Department of the Treasury ("Treasury") entered into a Senior Preferred Stock Purchase Agreement. Also, pursuant to its authority under the Reform Act, Treasury announced that it has established the Government Sponsored Enterprise Credit Facility (a lending facility to ensure credit availability to Freddie Mac, Fannie Mae, and the Federal Home Loan Banks that will provide secured funding on an as needed basis under terms and conditions established by the Treasury Secretary to protect taxpayers) and a program under which Treasury will purchase Government Sponsored Enterprise (including Freddie Mac) mortgage-backed securities (MBS) in the open market. The announcements by FHFA and Treasury and descriptions of these programs are available at their respective websites: http://www.OFHEO.gov and http://www.Treasury.gov.

Freddie Mac Guarantor Program

Freddie Mac has established a mortgage purchase program pursuant to which Freddie Mac purchases a group of mortgages from a single seller in exchange for a Freddie Mac certificate representing an undivided interest in a pool consisting of the same mortgages (the "Guarantor Program"). Freddie Mac approves the institutions that may sell and service mortgages under the Guarantor Program on an individual basis after consideration of factors such as financial condition, operational capability and mortgage origination and/or servicing experience. Most sellers and servicers are HUD-approved mortgagees or FDIC-insured financial institutions.

Freddie Mac Securities

Freddie Mac Securities will be mortgage pass-through securities issued and guaranteed by Freddie Mac under its Guarantor Program. Freddie Mac Securities are issued only in book-entry form through the Federal Reserve Banks' book-entry system. Each Freddie Mac Security represents an undivided interest in a pool of mortgage loans. Payments by borrowers on the mortgage loans in the pool are passed through monthly by Freddie Mac to record holders of the Freddie Mac Securities representing interests in that pool.

Payments on Freddie Mac Securities begin on or about the fifteenth day of the first month following issuance. Each month, Freddie Mac passes through to record holders of Freddie Mac Securities their proportionate share of principal payments on the mortgage loans in the related pool and one month's interest at the applicable pass-through rate. The pass-through rate for a Freddie Mac Security is determined by subtracting from the lowest interest rate on any of the mortgage loans in the pool the applicable servicing fee and Freddie Mac's management and guarantee fee, if any. The interest rates on the mortgages in a pool formed under Freddie Mac's Guarantor Program must fall within a range from the pass-through rate on the Freddie Mac Securities plus the minimum servicing fee through the pass-through rate plus 250 basis points.

Freddie Mac guarantees to each record holder of a Freddie Mac Security the timely payment of interest at the applicable pass-through rate on the principal balance of the holder's Freddie Mac Security. Freddie Mac also guarantees to each holder of a Freddie Mac Security (i) the timely payment of the holder's proportionate share of monthly principal due on the related mortgage loans, as calculated by Freddie Mac, and (ii) the ultimate collection of the holder's proportionate share of all principal of the related mortgage loans, without offset or reduction, no later than the payment date that occurs in the month by which the last monthly payment on the Freddie Mac Security is scheduled to be made.

Freddie Mac may pay the amount due on account of its guarantee of ultimate collection of principal on a mortgage at any time after default, but not later than 30 days following (i) the foreclosure sale of the mortgaged property, (ii) if applicable, the payment of an insurance or guaranty claim by the mortgage insurer or guarantor or (iii) the expiration of any right of redemption that the borrower may have, whichever is the last to occur. In no event, however, will Freddie Mac make payments on account of this guarantee later than one year after an outstanding demand has been made on the borrower for accelerated payment of principal or for payment of the principal due at maturity.

The obligations of Freddie Mac under its guarantees of the Freddie Mac Securities are obligations of Freddie Mac only. The Freddie Mac Securities, including the interest thereon, are not guaranteed by the United States and do not constitute debts or obligations of the United States or any agency or instrumentality of the United States other than Freddie Mac. If Freddie Mac were unable to satisfy its obligations under its guarantees, distributions on the Freddie Mac Securities would consist solely of payments and other recoveries on the related mortgages; accordingly, delinquencies and defaults on the mortgage loans would affect distributions on the Freddie Mac Securities and could adversely affect payments on Outstanding Bonds.

Mortgage Purchase and Servicing Standards

All mortgage loans purchased by Freddie Mac must meet certain standards established by the Freddie Mac Act. In addition, Freddie Mac has established its own set of mortgage purchase standards, including credit, appraisal and underwriting guidelines. These guidelines are designed to determine the value of the real property securing a mortgage loan and the creditworthiness of the borrower. Freddie Mac's administration of its guidelines may vary based on its evaluation of and experience with the seller of the mortgage loans, the loan-to-value ratio and age of the mortgage loans, the type of property securing the mortgage loans and other factors.

Freddie Mac has also established servicing policies and procedures to support the efficient and uniform servicing of the mortgage loans it purchases. Each servicer must perform diligently all services and duties customary to the servicing of mortgage loans in a manner consistent with prudent servicing standards. The duties performed by a servicer include collection and remittance of principal and interest to Freddie Mac; administration of escrow accounts; collection of insurance or guaranty claims; property inspections; and, if necessary, foreclosure. Freddie Mac monitors servicers' performance through periodic and special reports and inspections.

In the event of an existing or impending delinquency or other default on a mortgage loan, Freddie Mac may attempt to resolve the default through a variety of measures. In determining which measures to pursue with respect to a given mortgage loan and when to initiate such measures, Freddie Mac seeks to minimize the costs that may be incurred in servicing the mortgage, as well as Freddie Mac's possible exposure under its guarantees. However, the measures that Freddie Mac may choose to pursue to resolve a default will not affect Freddie Mac's guarantees. In any event, Freddie Mac generally repurchases from a pool any mortgage loan that has remained delinquent for at least 120 consecutive days and makes payment of principal to record holders pursuant to Freddie Mac's guarantee of ultimate collection of principal.

THE MASTER SERVICER

U.S. Bank National Association currently serves as Master Servicer for the Agency's MBS Program, including the Program Securities to be financed with proceeds of the Series Bonds. The Agency entered into a Servicing Agreement, dated as of July 9, 2009 (the "Servicing Agreement"), with the Trustee and U.S. Bank National Association, as master servicer (the "Master Servicer"), for a term originally ending August 31, 2011 (subject to renewal and termination rights). The Agency has recently elected to extend the term of the Servicing Agreement through August 31, 2013.

THE FOLLOWING INFORMATION ABOUT THE MASTER SERVICER RELATES TO AND WAS SUPPLIED BY U.S. BANK NATIONAL ASSOCIATION. SUCH INFORMATION HAS NOT BEEN VERIFIED BY THE AGENCY, THE REMARKETING AGENT, ITS COUNSEL OR BOND COUNSEL AND IS NOT

GUARANTEED AS TO COMPLETENESS OR ACCURACY BY, AND IS NOT TO BE CONSTRUED AS A REPRESENTATION OF, THE AGENCY, THE REMARKETING AGENT, ITS COUNSEL OR BOND COUNSEL.

As of December 31, 2012, the Master Servicer serviced 176,078 single-family mortgage revenue bond mortgage loans with an aggregate principal balance of approximately $14.1 billion. The Master Servicer currently services single-family mortgage loans for state and local housing finance authorities, mutual savings banks, life insurance companies, savings and loan associations, commercial banks, as well as Fannie Mae, GNMA and Freddie Mac.

As of December 31, 2012, according to its unaudited quarterly financial statements, U.S. Bancorp had total assets of approximately $353.9 billion and a net worth of $39 billion. For the 12 months ended December 31, 2012, the Master Servicer through its U.S. Bank Home Mortgage Division originated and purchased single-family mortgage revenue bond mortgage loans in the total principal amount of approximately $3.065 billion.

The Master Servicer is (i) an FHA- and VA-approved lender in good standing. (ii) a GNMA-approved seller and servicer of mortgage loans and an issuer of mortgage-backed securities guaranteed by GNMA, (iii) a Fannie Mae approved seller and servicer of Fannie Mae Securities, and (iv) a Freddie Mac approved seller and servicer of Freddie Mac securities.

The Master Servicer is not liable for the payment of the principal of Outstanding Bonds or the interest or redemption premium, if any, thereon.

The holding company for U.S. Bank National Association is U.S. Bancorp, the fifth largest financial services holding company in the United States.

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APPENDIX G

THE ORIGINAL OFFICIAL STATEMENT

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NEW ISSUE

This Official Statement has been prepared by the Minnesota Housing Finance Agency to provide information on the Series Bonds. Selected information is presented on this cover page for the convenience of the user. To make an informed decision regarding the Series Bonds, a prospective investor should read this Official Statement in its entirety. Unless indicated, capitalized terms used on this cover page have the meanings given in this Official Statement.

$85,000,000
Minnesota Housing Finance Agency
$13,150,000 Residential Housing Finance Bonds, 2006 Series A (Non-AMT)
$43,515,000 Residential Housing Finance Bonds, 2006 Series B (AMT)
$28,335,000 Residential Housing Finance Bonds, 2006 Series C (AMT)

Dated Date of Series Bonds: Date of Delivery **Due: As shown on inside front cover**

Tax Exemption	Interest on the above-captioned bonds (collectively, the "Series Bonds") is not includable in gross income for federal income tax purposes or taxable net income of individuals, trusts and estates for Minnesota income tax purposes. See pages 28-30 herein for additional information, including information on the application of federal and state alternative minimum tax provisions to the Series Bonds.
Redemption	The Series Bonds are subject to optional redemption and to special redemption at par as described on pages 9-16. The Series Bonds are subject to mandatory tender at par and the 2006 Series C Bonds are subject to optional and mandatory tender at par as described on pages 14-17 herein.
Security	On a parity with outstanding Bonds heretofore or hereafter issued under the Bond Resolution, by a pledge of Bond proceeds, Program Loans, Investments, Revenues and other assets held under the Bond Resolution. The Series Bonds are general obligations of the Agency, payable out of any of its generally available moneys, assets or revenues. *The Agency has no taxing power. The State of Minnesota is not liable for the payment of the Series Bonds and the Series Bonds are not a debt of the State.* Liquidity support for the purchase of any 2006 Series C Bonds tendered will, subject to the terms and conditions of such support, initially be provided by State Street Bank and Trust Company. See "Security for the Bonds" on pages 17-20 herein.
Interest Payment Dates	January 1 and July 1, commencing July 1, 2006, and on any redemption date or mandatory tender date.
Denominations	For the 2006 Series AB Bonds: $5,000 or any integral multiple thereof; for the 2006 Series C Bonds: $100,000 or any integral multiple of $5,000 in excess thereof.
Closing/Settlement	March 21, 2006 through the facilities of DTC in New York, New York.
Bond Counsel	Dorsey & Whitney LLP, Minneapolis, Minnesota.
Underwriters' Counsel	Kutak Rock LLP, Atlanta, Georgia.
Liquidity Provider Counsel	Winston & Strawn LLP, Chicago, Illinois.
Trustee	Wells Fargo Bank, National Association, in Minneapolis, Minnesota.
Book-Entry-Only System	The Depository Trust Company. See Appendix F hereto.

The Series Bonds are offered, when, as and if issued, subject to withdrawal or modification of the offer without notice and to the opinion of Dorsey & Whitney LLP, Minneapolis, Minnesota, Bond Counsel, as to the validity and tax exemption of the Series Bonds.

UBS Investment Bank **RBC Capital Markets**

Wachovia Bank, National Association

The date of this Official Statement is February 9, 2006.

UBS Securities LLC is the initial Remarketing Agent of the 2006 Series C Bonds.

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND PRICES

2006 SERIES A BONDS (Non-AMT)

$13,150,000 Serial Bonds

Due	Principal Amount	Interest Rate	CUSIP*	Due	Principal Amount	Interest Rate	CUSIP*
January 1, 2008	$600,000	3.30%	60415NYC0	July 1, 2012	$730,000	3.70%	60415NYM8
July 1, 2008	615,000	3.30	60415NYD8	January 1, 2013	750,000	3.80	60415NYN6
January 1, 2009	625,000	3.35	60415NYE6	July 1, 2013	765,000	3.85	60415NYP1
July 1, 2009	640,000	3.40	60415NYF3	January 1, 2014	785,000	3.90	60415NYQ9
January 1, 2010	655,000	3.45	60415NYG1	July 1, 2014	805,000	3.95	60415NYR7
July 1, 2010	665,000	3.50	60415NYH9	January 1, 2015	825,000	4.00	60415NYS5
January 1, 2011	680,000	3.55	60415NYJ5	July 1, 2015	845,000	4.00	60415NYT3
July 1, 2011	700,000	3.60	60415NYK2	January 1, 2016	865,000	4.00	60415NYU0
January 1, 2012	715,000	3.65	60415NYL0	July 1, 2016	885,000	4.00	60415NYV8

Price of 2006 Series A Serial Bonds — 100.000%

2006 SERIES B BONDS (AMT)

$3,835,000 4.60% Term Bonds Due July 1, 2021 at 100.000% (CUSIP 60415NYW6*)
$5,080,000 4.75% Term Bonds Due July 1, 2026 at 100.000% (CUSIP 60415NYX4*)
$6,720,000 4.85% Term Bonds Due July 1, 2031 at 100.000% (CUSIP 60415NYY2*)
$15,000,000 5.00% Term Bonds Due January 1, 2037 at 104.039% (CUSIP 60415NYZ9*)
$12,880,000 4.90% Term Bonds Due July 1, 2037 at 100.000% (CUSIP 60415NZA3*)

2006 SERIES C BONDS (AMT)

$28,335,000 Variable Rate Demand Term Bonds due January 1, 2037 (CUSIP 60415NZB1*)

The initial interest rate on the 2006 Series C Term Bonds shall be as set forth in the certificate of an authorized officer of the Agency delivered to the Trustee and the Underwriters at the Closing.

Price of 2006 Series C Bonds — 100.000%

* CUSIP numbers have been assigned by an organization not affiliated with the Agency and are included for the convenience of the holders of the Series Bonds. The Agency is not responsible for the selection or uses of these CUSIP numbers, nor is any representation made as to their correctness on the Series Bonds or as indicated above.

No dealer, broker, salesman or other person has been authorized by the Minnesota Housing Finance Agency, State Street Bank and Trust Company (the "Initial Liquidity Provider"), or the Underwriters to give any information or representations, other than those contained in the Official Statement and, if given or made, such other information or representations must not be relied upon as having been an offer to buy nor shall there be any sale of the Series Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information set forth herein has been obtained from the Agency, the Initial Liquidity Provider and from other sources which are believed to be reliable. The information and expressions of opinion herein are subject to change without notice and neither the delivery of the Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Agency or the Initial Liquidity Provider since the date hereof.

The Underwriters have reviewed the information in this Official Statement in accordance with, and as a part of, their respective responsibilities under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of the information.

In connection with this offering, the Underwriters may over-allot or effect transactions which stabilize or maintain the market price of the Series Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued.

THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

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OFFICIAL STATEMENT
relating to
$85,000,000
Minnesota Housing Finance Agency
Residential Housing Finance Bonds,
2006 Series A, 2006 Series B and 2006 Series C

This Official Statement (which includes the cover page, inside front cover and Appendices) provides certain information concerning the Minnesota Housing Finance Agency (the "Agency"), created by Minnesota Statutes, Chapter 462A, as amended (the "Act"), and its Residential Housing Finance Bonds, 2006 Series A (the "2006 Series A Bonds"), 2006 Series B (the "2006 Series B Bonds" and, collectively with the 2006 Series A Bonds, the "2006 Series AB Bonds") and 2006 Series C (the "2006 Series C Bonds" and, collectively with the 2006 Series AB Bonds, the "Series Bonds"), in connection with the offering and sale of the Series Bonds by the Agency and for the information of all who may become initial holders of the Series Bonds. The Series Bonds are being issued pursuant to the Act, a resolution of the Agency adopted as amended and restated on August 24, 1995, as further amended and supplemented (the "Bond Resolution"), and two series resolutions of the Agency adopted on January 26, 2006 (the "Series Resolutions"). (The Bond Resolution and the Series Resolutions are herein sometimes called the "Resolutions.") The Residential Housing Finance Bonds now outstanding in the aggregate principal amount of $1,350,420,000 as of December 31, 2005, under the Bond Resolution (the "Outstanding Bonds") and any additional Residential Housing Finance Bonds hereafter issued pursuant to the Bond Resolution, including the Series Bonds, will be equally and ratably secured and are herein sometimes called the "Bonds."

The Resolutions should be referred to for the definitions of capitalized terms used herein, some of which are reproduced in this Official Statement. The summaries and references herein to the Act, the Resolutions, the Standby Bond Purchase Agreement and other documents are only outlines of certain provisions and do not purport to summarize or describe all the provisions thereof. All references herein to the Act, the Resolutions, and the Standby Bond Purchase Agreement are qualified in their entirety by reference to the Act, the Resolutions and the Standby Bond Purchase Agreement, copies of which are available from the Agency, and all references to the Series Bonds are qualified in their entirety by reference to the definitive forms thereof and the information with respect thereto contained in the Resolutions.

INTRODUCTION

The Agency is a public body corporate and politic, constituting an agency of the State of Minnesota.

The Act authorizes the Agency to issue bonds for the purpose, among other purposes, of purchasing, making or otherwise participating in the making of long-term mortgage loans to persons and families of low and moderate income for the purchase of residential housing upon the determination by the Agency that such loans are not otherwise available from private lenders upon equivalent terms and conditions.

Since its creation in 1971, the Agency has issued bonds to purchase single family mortgage loans, to purchase home improvement loans and to finance multifamily developments. In addition to those programs, which are financed through the issuance of debt, the Agency finances grants and loans through State and federal appropriations and loans through its Endowment Funds and Alternative Loan Fund in the Residential Housing Finance Program Fund. Please refer to the comments under the heading "Net Assets Restricted by Covenant" in the notes to the financial statements included in Appendix B.

The Series Bonds are being issued to provide money for the Agency, from proceeds of the Series Bonds and from certain outstanding single family mortgage bonds refunded by the Series Bonds to be used, along with certain contributed funds of the Agency to continue its Program by purchasing Program Loans made by Lenders to low and moderate income persons for single family, owner-occupied housing within the State, by depositing certain amounts, if any, into the Debt Service Reserve Fund and by paying certain costs of issuance of the Series Bonds. See "Estimated Sources and Uses of Funds — Series Bonds."

The Series Bonds are secured, on a parity with Bonds heretofore and hereafter issued under the Bond Resolution, by a pledge of all Program Loans, Revenues and other assets held and received by the Agency pursuant to the Bond Resolution including the Program Obligations funded by the Agency from the Acquisition Account and

Revenues received by the Agency in connection therewith. While the Program Obligations to be acquired with the proceeds of the Series Bonds will consist of single family housing loans secured by first or subordinate mortgages, under the Bond Resolution the Agency is authorized to acquire Program Obligations in connection with Housing, which would include single family loans, home improvement loans, multifamily loans and other housing related loans, and to secure such loans in such manner as the Agency determines, which would include first mortgage loans, subordinate mortgage loans or loans which are unsecured. To date, only single family housing loans and home improvement loans have been financed as Program Obligations under the Bond Resolution. The Agency does not currently anticipate that future series of Bonds issued under the Bond Resolution will finance Program Obligations other than single family loans or home improvement loans. See "Security for the Bonds" and "Appendix D — Summary of Certain Provisions of the Bond Resolution."

The 2006 Series C Bonds initially will bear interest at a rate determined weekly (the "Weekly Mode"), until conversion to a different interest rate setting mode (a "Mode") occurs as described herein. Except as otherwise provided herein, so long as the 2006 Series C Bonds are in Weekly Mode, the owners of any 2006 Series C Bonds are entitled to demand purchase of such 2006 Series C Bonds at a purchase price equal to the principal amount thereof plus accrued interest, if any, to the date of purchase, upon satisfaction of the terms and conditions described herein. The 2006 Series C Bonds are also subject to mandatory tender for purchase under certain circumstances. UBS Securities LLC will act as the initial remarketing agent for the 2006 Series C Bonds (the "Remarketing Agent").

The Agency will provide a liquidity facility (the "Liquidity Facility") to be in effect prior to the date, if any, when all 2006 Series C Bonds have been converted from a Weekly Mode to another mode not requiring a Liquidity Facility, subject to terms and conditions described herein. The Initial Liquidity Facility with respect to the 2006 Series C Bonds will be a Standby Bond Purchase Agreement (the "Standby Bond Purchase Agreement") between the Agency, the Trustee and State Street Bank and Trust Company (the "Initial Liquidity Provider"). The Standby Bond Purchase Agreement will be executed as of the date of delivery of the 2006 Series C Bonds, and will provide for the purchase by the Initial Liquidity Provider on the terms and conditions specified therein of tendered 2006 Series C Bonds which cannot be remarketed. If the Standby Bond Purchase Agreement is to expire or terminate according to its terms (other than as a result of a Termination Event thereunder) or is to be replaced with another Liquidity Facility, the related 2006 Series C Bonds are subject to mandatory tender. If a Termination Event or a suspension event has occurred under the Standby Bond Purchase Agreement, the Initial Liquidity Provider will have no obligation to purchase the 2006 Series C Bonds and the Remarketing Agent will be entitled to suspend its efforts to remarket 2006 Series C Bonds. (See "Liquidity Facility—The Standby Bond Purchase Agreement" and "Description of the Series Bonds—Optional and Mandatory Tender of Certain 2006 Series C Bonds—Agency Not Responsible to Bondowners for Initial Liquidity Provider's Failure to Purchase 2006 Series C Bonds" herein.)

This Official Statement is intended to provide information to prospective owners of 2006 Series C Bonds while 2006 Series C Bonds are in the Weekly Mode, and is not intended to be relied upon by prospective owners of 2006 Series C Bonds with respect to which a Mode Change or a Conversion Date has occurred. The delivery of an updated disclosure document is a condition of such Mode Change or conversion and the related remarketing of 2006 Series C Bonds.

On April 24, 2003, the Members of the Agency adopted a resolution authorizing the Agency to enter into interest rate exchange agreements in respect of Bonds Outstanding or proposed to be issued. The Swap Agreement (as hereinafter defined) has been executed with UBS AG as counterparty, in connection with the issuance of the 2006 Series C Bonds, effective on the date of delivery of the Series 2006 C Bonds. (See "The Series Bonds — Interest on 2006 Series C Bonds" herein.)

The Series Bonds are general obligations of the Agency payable from any of its moneys, assets or revenues, subject only to the provisions of other resolutions or indentures now or hereafter pledging and appropriating particular moneys, assets or revenues to particular notes or bonds, or State or federal laws or restrictions that particular funds be applied for a specified purpose. The net assets of the General Reserve are legally available if needed to pay debt service on any obligations of the Agency, including the Series Bonds. See "The Agency – Net Assets Restricted By Covenant and Operations to Date – General Reserve." (For purposes of the Resolutions, the General Reserve is designated as the "General Reserve Account.")

Although the State has appropriated amounts to the Agency for various specific purposes (see "The Agency — State Appropriations"), the Agency generally pays its general and administrative expenses from certain interest earnings and fees charged in connection with its bond-funded programs. For programs funded through appropriations, the Agency recovers the costs of administering the programs only to the extent of interest earnings on the appropriations. The appropriations are not available to pay debt service on the Bonds except as otherwise set forth in this Official Statement.

The Agency has no taxing power. Neither the State of Minnesota nor any political subdivision thereof is or shall be obligated to pay the principal or redemption price of or interest on or purchase price with respect to the Series Bonds and neither the faith and credit nor the taxing power of the State or any political subdivision thereof is pledged to such payment.

THE AGENCY

Purpose

The Agency was created in 1971 by the Act as a public body corporate and politic, constituting an agency of the State of Minnesota, in response to legislative findings that there existed in Minnesota a serious shortage of decent, safe, and sanitary housing at prices or rentals within the means of persons and families of low and moderate income, and that the then present patterns of providing housing in the State limited the ability of the private building industry and the investment industry to produce such housing without assistance and resulted in a failure to provide sufficient long-term mortgage financing for such housing.

Structure

Under the Act, the membership of the Agency consists of the State Auditor and six public members appointed by the Governor with the advice and consent of the Senate for terms of four years. Pursuant to the Act, each member continues to serve until a successor has been appointed. The Chairman of the Agency is designated by the Governor from among the appointed public members. Pursuant to state law, the State Auditor may delegate duties and has delegated her duties as a member of the Agency in the event that the Auditor is unable to attend a meeting of the Agency.

The present members of the Agency, who serve without compensation (except for per diem allowance and expenses for members not otherwise compensated as public officers), are listed below.

Michael Finch, Chairman — Term expires January 2010, Minneapolis, Minnesota – Health Care Consultant

The Honorable *Patricia Anderson — Ex-officio*, St. Paul, Minnesota – State Auditor

Betty Lou Berg, Member — Term expires January 2008, St. Cloud, Minnesota – Real Estate Broker

Joseph Johnson III, Member — Term expires January 2009, Duluth, Minnesota – Banker

Paul Gaston, Member — Term expires January 2008, Vadnais Heights, Minnesota

Lee Himle, Member — Term expires January 2007, Spring Valley, Minnesota – Insurance Agency Owner

Marina Muñoz Lyon, Vice Chairman — Term expires January 2007, St. Paul, Minnesota – Foundation Officer.

Staff

The staff of the Agency presently consists of approximately 190 persons, including professional staff members who have responsibilities in the fields of finance, law, mortgage underwriting, architecture, construction inspection and housing management. The Attorney General of the State of Minnesota provides legal services for the Agency.

The Commissioner is appointed by the Governor. The Act authorizes the Commissioner of the Agency to appoint such permanent and temporary employees as the Commissioner deems necessary subject to the approval of the State Commissioner of Employee Relations.

The principal officers and staff related to the Program are as follows:

Timothy E. Marx — Commissioner. Mr. Marx was appointed Commissioner in June 2003. Prior to his appointment, Mr. Marx had been an attorney in the private practice of law since 1983, except for four years in public service for the City of Saint Paul. His practice involved the representation of public and nonprofit organizations in community development and finance, utility and telecommunications, environmental law, and related public policy and governmental relations matters. He served as general counsel to several major foundations and nonprofit organizations. From 1994 to 1998, Mr. Marx served as city attorney and then deputy mayor/chief of staff for the City of Saint Paul. Mr. Marx has a Bachelor of Arts degree from Saint John's University and received a combined J.D. from the University of Minnesota Law School and M.A. from the Humphrey Institute of Public Affairs.

Patricia Hippe — Deputy Commissioner. Ms. Hippe was appointed Deputy Commissioner effective May 2000. From January 1995 to the date of her appointment as Deputy Commissioner, Ms. Hippe was Director of Finance of the Agency. From January 1994 to January 1995, Ms. Hippe was Assistant Vice President and Trust Officer with Norwest Bank Minnesota, National Association, with responsibility for administration of taxable and tax-exempt bond issues. From January 1984 to January 1994, she held a variety of progressively more responsible positions with the HEAF Group, the most senior of which was Manager of Program Accounting with responsibility for student loan secondary market operations and accounting for multiple for-profit and non-profit entities. Ms. Hippe holds a Masters degree in Business Administration with a concentration in Accounting from the University of St. Thomas, St. Paul, Minnesota, a Bachelor of Science in Business Administration degree from the University of Minnesota and has successfully completed both the Certified Public Accountant and Certified Management Accountant exams.

Mike LeVasseur — Director of Finance of the Agency since October 2000. From February 2000 to October 2000, he was the Director of Bankruptcy and Litigation at Conseco Finance Corporation. From 1981 to 2000, he held a variety of progressively more responsible finance, administration and credit positions within the 7th Farm Credit District, most recently as Vice President of Special Assets at the St. Paul Bank for Cooperatives. Mr. LeVasseur has a Bachelor of Science degree in Business Administration from the University of Minnesota, with a Senior Accounting Certificate.

Michael A. Haley — Assistant Commissioner, Minnesota Homes Division since September 1980. From January 1972 to September 1980, he was Assistant Vice President of the Marquette National Bank of Minneapolis with responsibility for the Bank's residential mortgage operations which included secondary market sales and operations, business development and mortgage loan underwriting and approval. Mr. Haley has a Masters degree in Business Administration and a Bachelor of Arts degree from the University of St. Thomas, St. Paul, Minnesota. Mr. Haley also is a graduate of the Mortgage Bankers Association of America School of Mortgage Banking.

Frances J. O'Neill — Operations Manager of Minnesota Homes Division since July 1995. From May 1971 through June 1995, she was with the U.S. Department of Housing and Urban Development (HUD). From 1979 until 1986 she was Director of the Administration and Management Division, with responsibility for human resources, information systems and accounting. In 1986 she assumed the position of Deputy Director of the Housing Development Division, with responsibility for single family mortgage operations. Ms. O'Neill has a Bachelor of Science degree in Business Administration from Metropolitan State University.

The Agency's offices are located at 400 Sibley Street, St. Paul, Minnesota 55101; its investor relations contact is Sharon Spahn Bjostad at (651) 282-2577; and its general telephone number is (651) 296-7608. The Agency's web site address is http://www.mhfa.state.mn.us.

Independent Auditors

The financial statements of the Agency as of and for the year ended June 30, 2005, included in this Official Statement as Appendix B have been audited by Larson, Allen, Weishair & Co., LLP, independent auditors, as stated in their report appearing herein.

Financial Statements of the Agency

The Agency financial statements included in this Official Statement as Appendix B are presented in combined "Agency-wide" form followed by "fund" financial statements presented for its major funds in order to comply with the requirements of Statement No. 34 of the Governmental Accounting Standards Board.

In Appendix A to this Official Statement, the Agency has included unaudited financial statements of the General Reserve Account and the Residential Housing Finance Program Fund as of and for the three-months ended September 30, 2005, which reflect, in the opinion of the Agency, all normal recurring adjustments necessary for a fair statement of the financial position and results of operation of those funds for the period. The information in Appendix A has been prepared by the Agency, and, in the opinion of the Agency, includes information necessary for a fair statement of the financial position and results of operations of those Funds for the period. The information in Appendix A is not accompanied by a statement from the independent auditors.

Disclosure Information

The Agency will covenant for the benefit of the Beneficial Owners of the Series Bonds to provide annually certain financial information and operating data relating to the Agency (the "Agency Annual Report") and to provide notices of the occurrence of certain enumerated events, if material. The Agency Annual Report is to be filed by the Agency no later than nine months after the close of each fiscal year, commencing with the fiscal year ending June 30, 2006, with each Nationally Recognized Municipal Securities Information Repository (a "Repository"). The notices of material events, if any, are to be filed with each of the Repositories or with the Municipal Securities Rulemaking Board.

The specific nature of the information to be contained in the Agency Annual Report or the notices of material events, and the manner in which such materials are filed, are summarized below under the caption "Appendix C — Summary of Continuing Disclosure Agreement." These covenants have been made in order to assist the Underwriters in complying with SEC Rule 15c2-12(b)(5).

In addition to the Agency Annual Report required by the Continuing Disclosure Agreement, the Agency also uses its best efforts to prepare a quarterly disclosure report for each of its single family bond resolutions and a semiannual disclosure report for its multifamily bond resolution. Recent reports are available at the Agency's website at http://www.mhfa.state.mn.us/investor/investor_home.htm. The reports are also sent to the Repositories. The Residential Housing Finance Bond Resolution Disclosure Reports generally are filed quarterly. The most recent report is dated as of December 31, 2005. The Agency is also committed to providing appropriate credit information as requested by the rating agencies rating the securities.

Net Assets Restricted By Covenant and Operations to Date—General Reserve; Alternative Loan Fund

In accordance with provisions of the respective bond resolutions, the Agency may transfer money from Program Funds to the General Reserve of the Housing Development Fund. The Agency has pledged to deposit in the General Reserve any such funds transferred from the Program Funds, except for any amounts as may be necessary to reimburse the State for money appropriated to restore a deficiency in any debt service reserve fund.

The Agency further covenants that it shall use the money in the General Reserve only for the administration and financing of programs in accordance with the policy and purpose of the Act, including the creation of reserves for the payment of bonds and of loans made from the proceeds thereof, and shall accumulate and maintain therein such a balance of funds and investments as will be sufficient for the purpose. To ensure that funds available in the General Reserve are preserved to provide financial security for the Agency's bondholders as covenanted in the bond resolutions, the Agency has established investment guidelines for its Net Assets Restricted By Covenant. Please refer to the comments under the heading "Net Assets Restricted by Covenant" in the notes to the financial statements of the Agency.

Under these guidelines, the Agency's General Reserve Net Assets Restricted By Covenant is to be maintained at a level at least equal to the Agency's Housing Endowment Fund requirement of two percent (2%) of gross loans receivable.

The following summary indicates the revenues earned, funds transferred to and from the General Reserve and the expenses paid from such account for the periods indicated (in thousands):

	Three-Months Ended September 30,	Fiscal Year Ended June 30,	
	2005	2005	2004
Revenues and other additions to restricted net assets:			
Fees earned [(1)]	$1,851	$8,092	$7,631
Interest earned on investments	248	730	617
Unrealized gain (loss) on investment securities, net	(59)	(251)	(2,042)
Administrative reimbursement [(2)(3)]	4,399	17,219	14,349
	6,439	25,790	20,555
Expenses and other reductions to restricted net assets:			
Transfer of assets between funds [(4)]	568	3,438	4,036
Salaries and benefits	3,413	13,693	13,131
Other general operating	1,037	5,227	5,782
	5,018	22,358	22,949
Net changes in net assets	1,421	(3,432)	(2,394)
Net assets beginning period	33,547	30,115	32,509
Net assets end of period	$34,968	$33,547	$30,115

(1) Fees earned consist primarily of fees collected in conjunction with HUD contract administration, the administration of the low income housing tax credit program and certain non-Agency financed Section 8 developments.

(2) Reimbursement from bond funds are transferred to the General Reserve in accordance with the Agency's Affordable Housing Plan based on adjusted assets. Adjusted assets are defined as total assets plus the reserve for loan loss plus unearned discounts on loans minus premiums on loans.

(3) Reimbursement from appropriated accounts consist of the portion of direct and indirect costs of administering the programs funded by the appropriations. Costs associated with administering state appropriations are recovered from interest earnings on the appropriations. Costs associated with administering federal appropriations are recovered from the appropriation.

(4) Earnings from bond funds may be transferred to the General Reserve to the extent permitted by any resolution or indenture securing bonds of the Agency. In addition, funds in excess of the Housing Endowment Fund requirement may be transferred from the General Reserve to the Residential Housing Finance Fund. See the comments under the heading "Net Assets Restricted by Covenant" in the notes to the financial statements of the Agency for additional information.

The Agency also established an Alternative Loan Fund within the Bond Resolution. The Agency invests amounts on deposit in this fund in a combination of cash, cash equivalents, investment securities, and loans according to the investment guidelines established by the Agency for the Housing Investment and Housing Affordability Funds. The Alternative Loan Fund is not pledged to the payment of the Bonds or any other specific debt obligations of the Agency but is generally available to pay any debt obligations of the Agency. Loan activity related to loans financed by the Housing Investment and Housing Affordability Funds is recorded as part of the Alternative Loan Fund in the Bond Resolution. All interfund transfers are approved by the Agency.

State Appropriations

Over the years, the State Legislature has enacted several laws making amendments to the Act and appropriating funds to the Agency which are to be used for low interest loans, grants, programs for low and moderate income persons and families and other housing related program costs. The State Legislature has appropriated funds to the Agency for its programs in every biennium since 1975. Over the past five years, appropriations to the Agency have totaled $228,969,000. Most of the appropriations have been expended or committed by the Agency.

The appropriations are not available to pay debt service on the Bonds.

Agency Indebtedness

The principal amount of bonds and notes of the Agency which are outstanding at any time (excluding the principal amount of any bonds and notes refunded) is presently limited to $3,000,000,000. The following table lists the principal amounts of indebtedness, all of which are general obligations of the Agency, outstanding as of December 31, 2005:

	Number of Series	Bonds Maturing	Original Principal Amount (in thousands)*	Principal Amount Outstanding (in thousands)
Rental Housing Bonds	21	2006-2045	$ 458,670	$ 200,985
Residential Housing Finance Bonds	36	2006-2036	1,473,395	1,350,420
Single Family Mortgage Bonds	59	2006-2035	1,312,240	393,260
Total Debt Outstanding	116		$ 3,244,305	$ 1,944,665

* Does not include the original principal amount of any series of bonds that have been, as of December 31, 2005, defeased or paid in full, whether at maturity or earlier redemption.

The payment of principal of and interest on obligations of the Agency as shown above may be made, if necessary, from the General Reserve.

ESTIMATED SOURCES AND USES OF FUNDS — SERIES BONDS

The estimated sources and uses of funds related to the Series Bonds are as follows:

Sources:		
Principal Amount of Series Bonds	$	85,000,000.00
Original Issue Premium...		605,850.00
Agency Contribution		4,250,000.00
Total Sources of Funds	$	89,855,850.00
Uses:		
Deposit to Acquisition Account	$	86,335,080.06
Deposit to Costs of Issuance Account		225,000.00
Deposit to Revenue Fund		260,000.00
Deposit to Debt Service Reserve Fund....................................		2,550,000.00
Underwriters' Compensation..		485,769.94
Total Uses of Funds	$	89,885,850.00

DESCRIPTION OF THE SERIES BONDS

General

The Series Bonds are issuable only as fully registered bonds and will initially be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), who will act as securities depository for each series of the Series Bonds. Wells Fargo Bank, National Association, Minneapolis, Minnesota, is to serve as Trustee. Interest on the Series Bonds is payable by moneys wired by the Trustee to DTC, or its nominee, as registered owner of such Bonds, which interest is to be redistributed by DTC. Principal of the Series Bonds is payable at maturity or earlier redemption upon surrender at the principal corporate trust office of the Trustee. See "Appendix F — Book-Entry-Only System."

The 2006 Series AB Bonds are issuable in the denominations of $5,000 or any integral multiple thereof of single maturities. The 2006 Series C Bonds are issuable in denominations of $100,000 or any integral multiple of $5,000 in excess thereof. For every exchange or transfer of Series Bonds, whether temporary or definitive, the Agency or the Trustee may make a charge sufficient to reimburse it for any tax, fee or other governmental charge required to be paid with respect to such exchange or transfer. The Series Bonds mature on the dates and in the amounts set forth on the inside front cover hereof, subject to redemption as hereinafter described.

Interest on the 2006 Series AB Bonds

The 2006 Series AB Bonds will bear interest from their dated date, payable semiannually on January 1 and July 1 of each year, commencing on July 1, 2006, at the respective rates set forth on the inside front cover hereof until payment of the principal of or redemption price on such Bonds. Interest on the Series Bonds will be payable to the holder of record in the bond registration books maintained by the Trustee as of the 15th day of the month preceding the interest payment date, whether or not a business day (the "Record Date" for the 2006 Series AB Bonds).

Interest on the 2006 Series C Bonds

The 2006 Series C Bonds initially delivered will bear interest from their dated date and will be dated as of the date of their authentication and delivery. The 2006 Series C Bonds will mature on January 1, 2037. The Record Date for 2006 Series C Bonds will be the last Business Day preceding each Interest Payment Date.

Weekly Mode. Interest on the 2006 Series C Bonds in a Weekly Mode will accrue from their date of delivery and will be payable in arrears, on the basis of a 365/366-day year for the number of days actually elapsed. Interest shall be payable on January 1 and July 1 of each year, commencing on July 1, 2006, for the period, for the initial Interest Payment Date, from the date of delivery of the 2006 Series C Bonds, and for subsequent Interest Payment Dates, from the preceding Interest Payment Date (i.e., January 1 or July 1), to, but not including, such Interest Payment Date.

The 2006 Series C Bonds will bear interest from the date of delivery to, but not including, March 30, 2006, at a rate set forth in a certificate delivered by the Agency on the date of delivery of the 2006 Series C Bonds. Thereafter, the 2006 Series C Bonds in the Weekly Mode (other than Bank Bonds) will bear interest at the Weekly Rate that will take effect each Thursday (the "Effective Rate Date") following a Rate Determination Date and remain in effect until the day before the next Effective Rate Date. The Weekly Rate will be determined by the Remarketing Agent by 4:00 p.m. New York time on the first Business Day preceding the applicable Effective Rate Date (each a "Rate Determination Date"). In no event will the 2006 Series C Bonds (other than Bank Bonds) bear interest at a rate in excess of 12% (the "Maximum Rate").

The Weekly Rate will be that rate which, in the determination of the Remarketing Agent, would result as nearly as practicable in the market value of the 2006 Series C Bonds on the Effective Rate Date being 100% of the principal amount thereof. In determining the Weekly Rate for any 2006 Series C Bonds, the Remarketing Agent for such 2006 Series C Bonds will take into account to the extent applicable (1) market interest rates for comparable securities held by tax-exempt open-end municipal bond funds or other institutional or private investors with substantial portfolios (a) with interest rate adjustment periods and demand purchase options substantially identical to such 2006 Series C Bonds, (b) bearing interest at a variable rate intended to maintain par value, and (c) rated by a national credit rating agency in the same category as such 2006 Series C Bonds; (2) other financial market rates and indices that may have a bearing on the Weekly Rate (including, but not limited to, rates borne by commercial paper, Treasury Bills, commercial bank prime rates, certificate of deposit rates, federal fund rates, the London Interbank Offered Rate (LIBOR), the index published by The Bond Market Association based upon data compiled by Municipal Market Data concerning tax-exempt variable rates (the "TBMA Index"), indices maintained by The Bond Buyer, and other publicly available tax-exempt interest rate indices); (3) general financial market conditions; and (4) factors particular to the Agency and such 2006 Series C Bonds.

The determination by the Remarketing Agent of the Weekly Rate to be borne by any 2006 Series C Bonds (other than Bank Bonds) will be conclusive and binding on the holders of such 2006 Series C Bonds. Failure by a Remarketing Agent or the Trustee to give any notice required under the Series Resolution, or any defect in such notice, will not affect the interest rate borne by any 2006 Series C Bonds or the rights of the Bondholders thereof.

If for any reason the position of Remarketing Agent is vacant or a Remarketing Agent fails to establish the interest rate, the 2006 Series C Bonds (other than Bank Bonds) will automatically bear interest in a Weekly Mode with the interest rate reset on a weekly basis at the lesser of (i) the TBMA Index plus 0.25% or (ii) the Maximum Rate.

Mode Changes. The Agency may elect (1) to change the intervals at which the interest rate is calculated with respect to all or part of the 2006 Series C Bonds or change the basis for determining interest to an auction procedure (each such change is a "Mode Change" with respect to the 2006 Series C Bonds to which such Mode Change applies, and the date on which each such Mode Change is effective is a "Mode Change Date"), (2) to change all or part of the 2006 Series C Bonds to become variable rate bonds not required to be covered by a Liquidity Facility (each such change an "Unenhanced Variable Rate Change" with respect to the 2006 Series C Bonds to which it applies, and the date of each such change an "Unenhanced Variable Rate Change Date") or (3) to convert all or part of the 2006 Series C Bonds to bear interest at fixed rates to their maturity or to bear interest at an index rate (with respect to the 2006 Series C Bonds to which such conversion applies, a "Conversion", and the date on which such a Conversion is effective a "Conversion Date"). The Agency will provide notice of a Mode Change, an Unenhanced Variable Rate Change, or a Conversion to the Remarketing Agent, the Trustee, the Liquidity Provider, and the Tender Agent not less than 20 days before the applicable Mode Change Date, Unenhanced Variable Rate Change Date or Conversion Date. The Trustee will provide notice of a Mode Change, an Unenhanced Variable Rate Change or a Conversion to DTC not less than 15 days before the applicable Mode Change Date, Unenhanced Variable Rate Change Date or Conversion Date. On each Mode Change Date, Unenhanced Variable Rate Change Date, or Conversion Date, the 2006 Series C Bonds to which such Mode Change, Unenhanced Variable Rate Change or Conversion applies will be subject to mandatory tender for purchase. **This Official Statement is not intended to describe the 2006 Series C Bonds in any Mode other than a Weekly Mode.**

For additional information with respect to the 2006 Series C Bonds, see also "Optional Redemption of 2006 Series C Bonds" below, "Appendix H – Certain Definitions With Respect to the 2006 Series C Bonds" and "Appendix I – Summary of Certain Provisions of and Relating to the Standby Bond Purchase Agreement."

Swap Agreement. The Agency has entered into an interest rate swap agreement (the "Swap Agreement") with UBS AG (the "Swap Counterparty") with respect to the 2006 Series C Bonds effective on the date of issuance of the 2006 Series C Bonds. The purpose of the Swap Agreement is to place the aggregate net obligation of the Agency with respect to the portion of the Program financed by all or a portion of the 2006 Series C Bonds on an approximately fixed-rate basis. Payments made to the Swap Counterparty by the Agency under the Swap Agreement are to be made semiannually on the basis of a notional principal amount and the relationship between an agreed-upon fixed rate and a variable rate calculated by reference to the One Month LIBOR. Payments made to the Swap Counterparty, including any applicable termination fee referenced below, are to be paid from Revenues on deposit in the Revenue Fund under the Bond Resolution, on a basis subordinate to the payment of the interest on and principal of the Bonds and the funding of the Debt Service Reserve Fund and the Insurance Reserve Fund. Payments made to the Agency by the Swap Counterparty under the Swap Agreement (which would result if the variable rate payable by the Swap Counterparty under the Swap Agreement exceeds the fixed interest rate payable by the Agency under the Swap Agreement) are pledged as Revenues under the Resolutions. Unless earlier terminated (in which case a termination fee may be payable by one party to the other party), the Swap Agreement is expected to expire on January 1, 2037.

Sinking Fund Redemption

The 2006 Series B Bonds maturing on July 1, 2021 are subject to mandatory redemption in part on January 1, 2017 and on each July 1 and January 1 thereafter, to and including January 1, 2021, at their principal amount plus accrued interest, without premium, from funds in the Sinking Fund Account, on the dates and in the principal amounts as follows:

Date	Principal Amount	Date	Principal Amount
January 1, 2017	$340,000	July 1, 2019	$390,000
July 1, 2017	345,000	January 1, 2020	395,000
January 1, 2018	355,000	July 1, 2020	410,000
July 1, 2018	365,000	January 1, 2021	425,000
January 1, 2019	380,000	July 1, 2021 (Maturity)	430,000

The 2006 Series B Bonds maturing on July 1, 2026 are subject to mandatory redemption in part on January 1, 2022 and on each July 1 and January 1 thereafter, to and including January 1, 2026, at their principal amount plus accrued interest, without premium, from funds in the Sinking Fund Account, on the dates and in the principal amounts as follows:

Date	Principal Amount	Date	Principal Amount
January 1, 2022	$445,000	July 1, 2024	$515,000
July 1, 2022	455,000	January 1, 2025	525,000
January 1, 2023	475,000	July 1, 2025	545,000
July 1, 2023	485,000	January 1, 2026	560,000
January 1, 2024	500,000	July 1, 2026 (Maturity)	575,000

The 2006 Series B Bonds maturing on July 1, 2031 are subject to mandatory redemption in part on January 1, 2027 and on each July 1 and January 1 thereafter, to and including January 1, 2031, at their principal amount plus accrued interest, without premium, from funds in the Sinking Fund Account, on the dates and in the principal amounts as follows:

Date	Principal Amount	Date	Principal Amount
January 1, 2027	$590,000	July 1, 2029	$680,000
July 1, 2027	605,000	January 1, 2030	695,000
January 1, 2028	625,000	July 1, 2030	720,000
July 1, 2028	645,000	January 1, 2031	740,000
January 1, 2029	660,000	July 1, 2031 (Maturity)	760,000

The 2006 Series B Bonds maturing on January 1, 2037 (the "PAC Term Bonds") are subject to mandatory redemption in part on January 1, 2017 and on each July 1 and January 1 thereafter, to and including July 1, 2036, at their principal amount plus accrued interest, without premium, from funds in the Sinking Fund Account, on the dates and in the principal amounts as follows:

Date	Principal Amount	Date	Principal Amount
January 1, 2017	$195,000	January 1, 2027	$345,000
July 1, 2017	205,000	July 1, 2027	355,000
January 1, 2018	210,000	January 1, 2028	365,000
July 1, 2018	215,000	July 1, 2028	375,000
January 1, 2019	220,000	January 1, 2029	390,000
July 1, 2019	225,000	July 1, 2029	400,000
January 1, 2020	235,000	January 1, 2030	410,000
July 1, 2020	240,000	July 1, 2030	420,000
January 1, 2021	245,000	January 1, 2031	430,000
July 1, 2021	255,000	July 1, 2031	445,000
January 1, 2022	260,000	January 1, 2032	460,000
July 1, 2022	270,000	July 1, 2032	470,000
January 1, 2023	275,000	January 1, 2033	485,000
July 1, 2023	285,000	July 1, 2033	500,000
January 1, 2024	290,000	January 1, 2034	515,000
July 1, 2024	300,000	July 1, 2034	530,000
January 1, 2025	310,000	January 1, 2035	545,000
July 1, 2025	315,000	July 1, 2035	560,000
January 1, 2026	325,000	January 1, 2036	580,000
July 1, 2026	335,000	July 1, 2036	595,000
		January 1, 2037 (Maturity)	615,000

The 2006 Series B Bonds maturing on July 1, 2037 are subject to mandatory redemption in part on January 1, 2032 and on each July 1 and January 1 thereafter, to and including January 1, 2037, at their principal amount plus accrued interest, without premium, from funds in the Sinking Fund Account, on the dates and in the principal amounts as follows:

Date	Principal Amount	Date	Principal Amount
January 1, 2032	$780,000	January 1, 2035	$930,000
July 1, 2032	810,000	July 1, 2035	960,000
January 1, 2033	830,000	January 1, 2036	985,000
July 1, 2033	855,000	July 1, 2036	1,015,000
January 1, 2034	880,000	January 1, 2037	1,040,000
July 1, 2034	905,000	July 1, 2037 (Maturity)	2,890,000

The 2006 Series C Bonds maturing on January 1, 2037 are subject to mandatory redemption in part on January 1, 2017 and on each July 1 and January 1 thereafter, to and including July 1, 2036, at their principal amount plus accrued interest, without premium, from funds in the Sinking Fund Account, on the dates and in the principal amounts as follows:

Date	Principal Amount	Date	Principal Amount
January 1, 2017	$370,000	January 1, 2027	$650,000
July 1, 2017	385,000	July 1, 2027	670,000
January 1, 2018	395,000	January 1, 2028	690,000
July 1, 2018	405,000	July 1, 2028	710,000
January 1, 2019	415,000	January 1, 2029	730,000
July 1, 2019	430,000	July 1, 2029	750,000
January 1, 2020	440,000	January 1, 2030	775,000
July 1, 2020	455,000	July 1, 2030	795,000
January 1, 2021	465,000	January 1, 2031	820,000
July 1, 2021	480,000	July 1, 2031	845,000
January 1, 2022	495,000	January 1, 2032	870,000
July 1, 2022	510,000	July 1, 2032	890,000
January 1, 2023	520,000	January 1, 2033	920,000
July 1, 2023	535,000	July 1, 2033	945,000
January 1, 2024	550,000	January 1, 2034	970,000
July 1, 2024	565,000	July 1, 2034	1,000,000
January 1, 2025	585,000	January 1, 2035	1,030,000
July 1, 2025	600,000	July 1, 2035	1,060,000
January 1, 2026	615,000	January 1, 2036	1,090,000
July 1, 2026	635,000	July 1, 2036	1,120,000
		January 1, 2037 (Maturity)	1,155,000

Special Redemption

Non-Origination. The Series Bonds are subject to special redemption, at the option of the Agency, prior to maturity, at any time, in whole or in part, at a redemption price equal to par plus accrued interest, without premium (except that any PAC Term Bonds so selected would be purchased at a price of par, plus accrued interest, plus the unamortized premium thereon as determined by the Agency by a straight line amortization of the original issue premium set forth on the inside cover of this Official Statement between the date of issue and January 1, 2015 (as of which date the premium would reduce to zero)), from moneys representing Series Bonds proceeds not used to purchase Program Loans and transferred to the Bond Redemption Fund from the 2006 Series A-B-C Acquisition Account and any allocable amounts held in the Debt Service Reserve Fund and Insurance Reserve Fund transferred to the Bond Redemption Fund. In the event that any Series Bonds are to be redeemed as a result of non-origination, such Bonds shall be selected at random within a series and maturity from such series and maturities of the Series Bonds as shall be determined by the Agency; provided that 2006 Series C Bonds which are Bank Bonds shall be redeemed first.

Excess Revenues. Any moneys on deposit in the Revenue Fund attributable to Excess Revenues may, in the Agency's discretion and subject to the requirements of the Resolutions, be applied to the redemption, at any time, at a redemption price equal to par plus accrued interest, without premium, of Outstanding Bonds under the Bond Resolution (including the Series Bonds but with respect to the PAC Term Bonds, not in excess of the cumulative redemption schedule shown below) from such series, maturities and Sinking Fund Installments as the Agency may select at its option.

As used herein, "Excess Revenues" shall mean the Revenues, including prepayments (except as described below), on deposit in the Revenue Fund received in excess of (i) the maturing principal and Sinking Fund Installments and any required mandatory redemptions, together with interest from time to time and payable, on Bonds Outstanding under the Bond Resolution, (ii) amounts needed to maintain the Debt Service Reserve Fund and the Insurance Reserve Fund at their respective Requirements, and (iii) amounts required by the Agency to pay fees and other costs in connection with the Bonds associated with maintaining the Program, including amounts to be paid under the Swap Agreement, the Liquidity Facility and the Remarketing Agreement.

Prepayments. To the extent not needed to make regularly scheduled payments on the Series Bonds, prepayments of principal allocable to the Series Bonds received by or on behalf of the Agency shall first be applied to redeem the PAC Term Bonds in accordance with the following cumulative redemption schedule with respect to such PAC Term Bonds:

Date	Cumulative Amount†	Date	Cumulative Amount†
January 1, 2007	$ 145,000	July 1, 2011	$ 8,830,000
July 1, 2007	540,000	January 1, 2012	9,880,000
January 1, 2008	1,185,000	July 1, 2012	10,905,000
July 1, 2008	2,065,000	January 1, 2013	11,905,000
January 1, 2009	3,170,000	July 1, 2013	12,880,000
July 1, 2009	4,355,000	January 1, 2014	13,830,000
January 1, 2010	5,515,000	July 1, 2014	14,755,000
July 1, 2010	6,645,000	January 1, 2015	15,000,000
January 1, 2011	7,750,000		

† Based on an approximation of 50% TBMA prepayment experience. Amounts actually to be redeemed pursuant to this provision would be reduced proportionately to the extent any of the PAC Term Bonds were redeemed from non-origination of Series Bonds proceeds.

To the extent principal payments allocable to the Series Bonds are received by the Agency in excess of the amounts reflected in the prior table and are not needed to make regularly scheduled payments on the Series Bonds, they are to be used as follows:

(1) to the extent required by applicable federal tax law, (a) to redeem Outstanding Series Bonds (other than the PAC Term Bonds), from such series and maturities selected by the Agency, or (b) if no Series Bonds other than PAC Term Bonds are Outstanding, to redeem Outstanding PAC Term Bonds, in each case on any date, in whole or in part, at a price equal to par plus accrued interest, without premium; or

(2) to the extent not required by applicable federal tax law, at the option of the Agency, to redeem any Outstanding Bonds (other than the PAC Term Bonds).

Projected Weighted Average Lives of the PAC Term Bonds. The following information is provided in order to enable potential investors to evaluate the PAC Term Bonds which are the subject of special redemptions described above.

The weighted average life of a bond refers to the average of the length of time that will elapse from the date of issuance of such bond to the date each installment of principal is paid to the bondholder weighted by the amount of such installment. The weighted average life of the PAC Term Bonds will be influenced by, among other things, the rate at which Program Loans are originated and the rate at which principal payments (including scheduled payments and principal prepayments) are made on the Program Loans allocable to the Series Bonds. An investor owning less than all of the PAC Term Bonds may experience redemption at a rate which varies from the average life of the PAC Term Bonds.

Prepayments of mortgage loans are commonly projected in accordance with a prepayment standard model. The following table, entitled "Projected Weighted Average Lives for the PAC Term Bonds" assumes, among other things, that (i) the Program Loans prepay at the indicated percentages of The Bond Market Association ("TBMA") prepayment experience, (ii) all amounts in the 2006 Series A-B-C Acquisition Account will be used to purchase Program Loans, (iii) all Program Loans will be financed by July 11, 2006, (iv) all scheduled principal and interest payments on Program Loans and Prepayments thereof are received thirty days after the date on which due and there are no foreclosure losses experienced on such Program Loans, and (v) the PAC Term Bonds are not redeemed pursuant to optional redemption. Based on such assumptions, some or all of which are unlikely to reflect actual experience, the following table provides certain projected weighted average life information for the PAC Term Bonds.

Projected Weighted Average Lives for the PAC Term Bonds
(in years)

Prepayment Experience	PAC Term Bonds Average Life	Prepayment Experience	PAC Term Bonds Average Life
0%	22.72†	200%	4.97
50%	4.97	300%	4.97
75%	4.97	400%	4.97
100%	4.97	500%	4.97
150%	4.97		

† The weighted average life may be impacted if PAC Term Bonds are redeemed with Excess Revenues, as previously described herein.

No assurance can be given that prepayments of principal of the Program Loans will conform to any level of a particular prepayment projection, schedule or model or that prepayments will be available to be applied to redemptions of any of the Series Bonds, including the PAC Term Bonds. The rates of principal prepayments on Program Loans are generally influenced by a variety of economic, geographical, social and other factors, including servicing decisions, changing property values, prevailing interest rates and the time within which Program Loans are originated. In general, if prevailing interest rates fall significantly below the interest rates on the Program Loans financed by the Series Bonds, such Program Loans may be likely to prepay at higher rates than if prevailing interest rates remain at or above the interest rates on such Program Loans. Conversely, if prevailing interest rates rise above the interest rates on the Program Loans financed by the Series Bonds, the rate of prepayments might be expected to decrease. The rates of delinquencies and foreclosures on Program Loans will also affect the expected special redemption schedules. The Agency cannot predict the number of Program Loans financed by the Series Bonds that may become delinquent or in foreclosure proceedings. For these reasons, the Agency cannot offer any assurances as to the rate at which the Program Loans financed by the Series Bonds will prepay and offers no assurance that the scheduled amounts will, in fact, be available to effect any redemptions described herein.

Optional Redemption of 2006 Series AB Bonds

The 2006 Series AB Bonds are also subject to redemption at the option of the Agency as a whole or in part on any date on or after July 1, 2015, from any amounts available to the Agency for that purpose, and at a redemption price equal to par plus accrued interest, if any, without premium.

Mandatory Tender of Certain 2006 Series AB Bonds Upon Certain Events

To the extent interest rates decline, and particularly to the extent interest rates available on mortgages decline in the State, potential applicants for Program Loans may be dissuaded from applying to the Agency for such Program Loans, and the likelihood of a special redemption as described under "Special Redemption—*Non-Origination*" would be increased. In lieu of such redemption, the Agency has provided for the mandatory tender of 2006 Series AB Bonds selected by the Agency for purchase at par plus accrued interest (except that any PAC Term

Bonds so selected would be purchased at a price of par, plus accrued interest, plus the unamortized premium thereon as determined by the Agency by a straight line amortization of the original issue premium set forth on the inside cover of this Official Statement between the date of issue and January 1, 2015 (as of which date the premium would reduce to zero)), or at the option of the registered owner, exchange for a 2006 Series AB Bond of the same maturity and bearing interest as described below.

Mandatory Tender of Certain 2006 Series AB Bonds. Pursuant to the Series Resolution, a principal amount of 2006 Series AB Bonds as determined by the Agency (but not in excess of the principal amount of unexpended proceeds of such 2006 Series AB Bonds on deposit in the 2006 Series A-B-C Acquisition Account and any allocable amounts held in the Debt Service Reserve Fund and Insurance Reserve Fund) may be subject to mandatory tender for purchase on any date (the "Purchase Date"). On the Purchase Date, the 2006 Series AB Bonds subject to mandatory tender shall either be purchased by the Agency and remarketed at an adjusted interest rate or rates or, if the registered owner so elects, exchanged for an equal amount of 2006 Series AB Bonds of the same maturity bearing interest at the adjusted rate or rates.

Determination of Preliminary Adjusted Interest Rate. Upon making certain determinations as to the inability to purchase Program Loans at the mortgage rates established with respect to the 2006 Series AB Bonds, the Agency may appoint a remarketing agent (the "Series AB Bonds Remarketing Agent") and provide the Series AB Bonds Remarketing Agent with a schedule of 2006 Series AB Bonds of one or more maturities determined by the Agency to be subject to purchase on mandatory tender (the "Tender Bonds") and request the Series AB Bonds Remarketing Agent to determine, as of a stated date selected by the Agency not less than 5 days nor more than 10 days from the date of request, the interest rates (the "Preliminary Adjusted Rates") at which such Tender Bonds could be remarketed at par plus accrued interest. The aggregate principal amount of Tender Bonds set forth on the schedule may not exceed the unexpended proceeds of the 2006 Series AB Bonds held in the 2006 Series A-B-C Acquisition Account and any allocable amounts held in the Debt Service Reserve Fund and Insurance Reserve Fund. If the yield on the Tender Bonds at the Preliminary Adjusted Rates is at least 0.50% per annum lower than the yield on the Tender Bonds when issued, and certain other conditions relating to compliance with applicable federal tax law are met, the Agency may elect by written notice to the Trustee to call Tender Bonds for mandatory purchase on a date not less than 45 days after the date of such notice. Within each maturity designated by the Agency, the Trustee shall select at random the 2006 Series AB Bonds to be designated as Tender Bonds.

Notice of Mandatory Tender. Not less than 35 days prior to a Purchase Date, notice of the mandatory tender or exchange shall be given by the Trustee to the registered owners of Tender Bonds. (See "Appendix F—Book-Entry-Only System.") Such notice shall state, in substance: (i) the Purchase Date; (ii) the Preliminary Adjusted Rates for applicable Tender Bonds; (iii) that the registered owners of such Tender Bonds will no longer be entitled to receive interest on such Bonds after the Purchase Date, except in the case of Tender Bonds retained at the election of the registered owner (which Tender Bonds shall bear interest at the Final Adjusted Rates, as defined below, from and after the Purchase Date); (iv) that each Tender Bond shall be purchased or deemed purchased on the Purchase Date unless the registered owner properly directs the Agency and Trustee not to purchase such Bond on the Purchase Date; and (v) that notwithstanding a direction not to purchase, the Tender Bonds may be redeemed by the Agency on the Purchase Date under certain circumstances as set forth in the Series Resolution. Such notice is to set forth the procedures to be followed by a registered owner who wishes to retain all or a portion (in whole multiples of $5,000) of such registered owner's Tender Bonds. Any such election to retain all or a portion of the Tender Bonds shall be irrevocable. Failure to follow the specified procedures shall result in a purchase or deemed purchase of such registered owner's Tender Bonds.

Final Adjusted Interest Rates. Not more than 30 nor less than 15 days prior to the Purchase Date, the 2006 Series AB Bonds Remarketing Agent shall determine and certify to the Trustee and the Agency the adjusted interest rate each maturity of Tender Bonds shall bear from and after the Purchase Date (the "Final Adjusted Rates"). Said Final Adjusted Rates shall be those rates which, in the judgment of the 2006 Series AB Bonds Remarketing Agent, would permit the sale of the applicable Tender Bonds at par on the date of determination.

Mandatory Tender or Redemption. Any Tender Bond called for mandatory tender on the applicable Purchase Date and not delivered to the Trustee for purchase by 11:30 a.m., New York Time, on the applicable Purchase Date shall be deemed tendered and a Series Bond of the same series bearing interest at an adjusted rate may be issued in place thereof to the purchaser thereof. Any Tender Bond deemed purchased shall not bear interest from and after the Purchase Date and the holder thereof shall have no rights under the Resolutions other than the right to receive the purchase price thereof.

Upon the occurrence of certain events, the Agency may determine to redeem all Tender Bonds on the Purchase Date, notwithstanding the election by some registered owners to retain all or a portion of their Tender Bonds. The purchase of Tender Bonds is contingent upon satisfaction of certain arbitrage requirements of federal tax law, compliance with cash flow and other requirements of the Bond Resolution, maintenance of credit ratings on the Bonds outstanding under the Bond Resolution, and a determination that, given the final Adjusted Rates, Program Loans can be effectively originated and purchased to carry out the Program. If one or more of these prerequisites cannot be satisfied, the Agency may redeem all Tender Bonds on the Purchase Date without additional notice at a price of par plus accrued interest, without premium.

General Provisions as to 2006 Series AB Bonds

Except as otherwise provided in the Series Resolution, any 2006 Series AB Bonds to be purchased or redeemed shall be purchased or redeemed only upon receipt by the Trustee of a certificate signed by an officer authorized by the Agency and stating the following: (a) the Series of the 2006 Series AB Bonds to be purchased or redeemed; (b) the maturities within such Series from which 2006 Series AB Bonds are to be purchased or redeemed; and (c) the principal amount and maximum price of Bonds within such maturities to be purchased or redeemed. If less than all 2006 Series AB Bonds of a series and maturity are to be redeemed, the 2006 Series AB Bonds of that series and maturity to be redeemed shall be selected by lot, unless a different order of priority is specified by the Series Resolution. The Agency shall not at any time cause 2006 Series AB Bonds to be purchased or redeemed if this would have any material adverse effect on its ability to pay when due the principal of and interest on the Bonds Outstanding after such purchase or redemption.

The Trustee is required to mail a copy of the notice, by first class mail, to the registered owner of any 2006 Series AB Bond called for redemption at least 30 days prior to the redemption date; said registered owner to be determined from the registry books as of the last business day of the month preceding the month in which such notice is mailed.

Optional Redemption of 2006 Series C Bonds

Optional Redemption. The 2006 Series C Bonds in the Weekly Mode may be redeemed at the option of the Agency, in whole or in part on any Business Day (including any optional or mandatory tender date), from any money made available for such purpose, at a Redemption Price equal to 100% of the principal amount thereof to be redeemed, plus accrued interest, if any, to but not including the redemption date.

Notice of Redemption. While the 2006 Series C Bonds are held in a Weekly Mode, a copy of the notice of the call for any redemption identifying the 2006 Series C Bonds to be redeemed shall be given by Immediate Notice not less than 15 days prior to the date fixed for redemption to the Holders of 2006 Series C Bonds to be redeemed at their addresses as shown on the Bond Register. Such notice shall specify the redemption date, the redemption price, the place and manner of payment and that from the redemption date interest will cease to accrue on the 2006 Series C Bonds which are the subject of such notice and shall include such other information as the Trustee shall deem appropriate or necessary at the time such notice is given to comply with any applicable law, regulation or industry standard. "Immediate Notice" means notice by telephone, telex or telecopier to such address as the addressee shall have directed in writing, promptly followed by written notice by first class mail, postage prepaid. Notwithstanding the foregoing, no separate notice of redemption need be given in addition to the notice of tender required to be given by the Bondholder or Trustee, as applicable, for 2006 Series C Bonds to be redeemed on an optional or mandatory tender date.

Pursuant to the Series Resolution, the Trustee is required to give notice of redemption by first class mail to the registered owners of the 2006 Series C Bonds not less than 15 days prior to the redemption date and published notice is not required. Subject to the terms of the Series Resolution, any 2006 Series C Bonds to be purchased or redeemed, will be purchased or redeemed only upon receipt by the Trustee of a certificate signed by an officer authorized by the Agency and stating (1) the Series of Bonds to be purchased or redeemed, (2) the maturities within such Series from which Bonds are to be purchased or redeemed, (3) the principal amount and redemption price of Bonds within such maturities to be purchased or redeemed, and (4) if any of the Bonds to be purchased or redeemed are term Bonds, the years in which and the amounts by which the applicable Sinking Fund Installments, if any, are to be reduced. Upon any redemption of 2006 Series C Bonds, the Trustee will select those to be redeemed by lot or such other method of selection as it shall deem proper in its discretion.

Optional and Mandatory Tender of Certain 2006 Series C Bonds

Optional Tender. Holders of 2006 Series C Bonds in the Weekly Mode may elect to tender their 2006 Series C Bonds for purchase, by providing notice to the Remarketing Agent and the Tender Agent not later than 5:00 p.m. (New York City time) on any Business Day that is at least seven calendar days before the purchase date, which must be a Business Day and must be set forth in the notice. Such 2006 Series C Bonds will be purchased on the purchase date specified in the notice at a price equal to 100% of the principal amount thereof plus accrued interest to but not including the purchase date (the "Purchase Price"). Such notice of optional tender for purchase of 2006 Series C Bonds by the Bondholders thereof will be irrevocable once such notice is given to the Remarketing Agent and the Tender Agent.

Mandatory Tender. The 2006 Series C Bonds or any portion thereof are subject to mandatory tender for purchase (with no right to retain) at the Purchase Price (i) on any Mode Change Date and each Unenhanced Variable Rate Change Date for such Bonds, (ii) upon scheduled expiration or termination by the Agency of the Initial Liquidity Facility or an Alternate Liquidity Facility (defined below) (a "Liquidity Expiration Event") for such Bonds, on a date not less than five (5) days prior to the scheduled expiration or earlier termination of the Liquidity Facility, (iii) on any Conversion Date for such Bonds, and (iv) upon receipt of a Notice of Termination Date (as described in any Liquidity Facility) by the Trustee following the occurrence of certain Events of Default under such Liquidity Facility, on a date not less than five (5) days prior to the date on which the Liquidity Facility will terminate (each a "Mandatory Tender Date"). Upon any such event, the Trustee will deliver a notice of mandatory tender to Bondholders, at least 15 days prior to the Mandatory Tender Date, stating the reason for the mandatory tender, the date of mandatory tender, and that all Bondholders of 2006 Series C Bonds subject to such mandatory tender will be deemed to have tendered their 2006 Series C Bonds upon such date.

This paragraph is applicable only if the book-entry system has been discontinued and replacement bonds have been issued or if DTC has exercised its option to surrender and exchange its 2006 Series C Bonds certificates. Any 2006 Series C Bonds not tendered and delivered to the Tender Agent on or prior to its Mandatory Tender Date for which there have been irrevocably deposited in trust with the Trustee the Purchase Price will be deemed to have been tendered and purchased on such Mandatory Tender Date. Bondholders will not be entitled to any payment (including any interest to accrue on or after the Mandatory Tender Date) other than the principal amount of such 2006 Series C Bonds, plus accrued interest to the day preceding the Mandatory Tender Date, and said Bondholders will no longer be entitled to the benefits of the Resolutions, except for the purpose of payment of the Purchase Price. Replacement 2006 Series C Bonds will be issued in place of such untendered 2006 Series C Bonds pursuant to the Series Resolution and, after the issuance of the replacement 2006 Series C Bonds, such untendered Bonds will be deemed purchased, canceled, and no longer Outstanding under the Resolutions.

Remarketing. On each date on which 2006 Series C Bonds are required to be purchased, the Remarketing Agent will use its best efforts to sell such 2006 Series C Bonds at a Weekly Rate (or, in the case of purchase upon a Mode Change, an interest rate corresponding to the appropriate mode) that results as nearly as practicable in the price being 100% of the principal amount thereof. In the event the Remarketing Agent is unable to remarket the 2006 Series C Bonds so tendered while the Initial Liquidity Facility is in effect, the Initial Liquidity Provider will purchase such 2006 Series C Bonds in accordance with the Initial Liquidity Facility. The Remarketing Agent will not be required to remarket the 2006 Series C Bonds (i) after the occurrence of an Event of Default under the Resolutions; (ii) after the occurrence of a Termination Event under the Liquidity Facility and the Initial Liquidity Provider's termination of its commitment to purchase 2006 Series C Bonds thereunder or (iii) if the Initial Liquidity Provider breaches its obligation to purchase 2006 Series C Bonds tendered and not remarketed. The Agency will enter into a Remarketing Agreement with the Remarketing Agent pursuant to which the Remarketing Agent will undertake the duties of Remarketing Agent, including remarketing of tendered 2006 Series C Bonds and determination of interest rates. The Remarketing Agreement provides that the Remarketing Agent may suspend its activities under certain circumstances, that the Remarketing Agent may resign its duties by giving 30 days' written notice to the Agency, and that the Agency may remove the Remarketing Agent upon 30 days' written notice.

Agency Not Responsible to Bondowners for Initial Liquidity Provider's Failure to Purchase 2006 Series C Bonds. Under the terms and provisions of the Remarketing Agreement and the Initial Liquidity Facility, the Purchase Price of 2006 Series C Bonds will be payable from moneys furnished in connection with the remarketing of the 2006 Series C Bonds or from the Initial Liquidity Facility. Upon the occurrence of certain Termination Events under the Initial Liquidity Facility, the Initial Liquidity Provider's obligation to purchase 2006 Series C Bonds under the Initial Liquidity Facility will immediately terminate or may be suspended without notice or other action on the part of the Initial Liquidity Provider. See "Liquidity Facility —The Standby Bond Purchase

Agreement." The Agency is not responsible to Bondowners for any failure by the Initial Liquidity Provider to purchase 2006 Series C Bonds tendered at the option of the Owner or subject to mandatory tender for purchase pursuant to the Series Resolution when the Initial Liquidity Provider is required to purchase such 2006 Series C Bonds under the Initial Liquidity Facility, including any such tender which occurs upon the occurrence of any Event of Default under the Initial Liquidity Facility.

If a Termination Event has occurred resulting in the termination of the Initial Liquidity Facility or if the Initial Liquidity Provider does not purchase any 2006 Series C Bonds tendered or deemed tendered for purchase by the Bondholders thereof and not remarketed, such Bonds will automatically bear interest in a Weekly Mode with the interest rate reset on a weekly basis at the lesser of (i) the TBMA Index plus 1.25% or (ii) the Maximum Rate. Bondholders will not have the right to tender their 2006 Series C Bonds during such period and may be required to hold their 2006 Series C Bonds to their maturity or prior redemption.

LIQUIDITY FACILITY

General Provisions

The Agency will maintain a Liquidity Facility in effect at all times when any 2006 Series C Bonds are in a Weekly Mode, or other Mode requiring a Liquidity Facility, except as otherwise provided below, in an amount not less than the potential Purchase Price of the outstanding 2006 Series C Bonds in the Weekly Mode or other Mode requiring a Liquidity Facility.

The Agency may elect to replace any Liquidity Facility (including but not limited to the Initial Liquidity Facility) with another liquidity facility meeting the requirements of the Series Resolution (an "Alternate Liquidity Facility", and, with the Initial Liquidity Facility, a "Liquidity Facility"). The Agency will notify the Trustee, the Remarketing Agent and the Tender Agent of the Agency's intention to deliver an Alternate Liquidity Facility at least 45 days prior to such delivery. Upon receipt of such notice, the Trustee will mail a notice of the anticipated delivery of an Alternate Liquidity Facility, including the name of the provider of such Alternate Liquidity Facility, to each Holder of the 2006 Series C Bonds at such Holder's registered address not less than 15 days prior to the date the 2006 Series C Bonds are subject to mandatory tender as herein provided. If the Agency elects to replace the Liquidity Facility, the 2006 Series C Bonds will be subject to mandatory tender not less than five (5) days prior to the termination of the existing Liquidity Facility. This Official Statement is not intended to apply to the 2006 Series C Bonds when an Alternate Liquidity Facility is in place.

The Agency may also elect to provide liquidity support for the 2006 Series C Bonds from its own funds or by delivering a liquidity facility which does not meet the requirements of an Alternate Liquidity Facility. If the Agency makes such an election, the 2006 Series C Bonds will be subject to mandatory tender prior to the expiration of the Liquidity Facility then in effect.

The Standby Bond Purchase Agreement

The initial Liquidity Facility will be the Standby Bond Purchase Agreement. Appendix I to this Official Statement summarizes certain provisions of the Standby Bond Purchase Agreement, to which reference is made for the detailed provisions thereof. Certain information regarding the Initial Liquidity Provider appears in Appendix J to this Official Statement.

SECURITY FOR THE BONDS

The Bonds, including the Series Bonds, are secured as provided in the Bond Resolution by a pledge and grant of a security interest in (a) all proceeds of the sale of the Bonds (other than proceeds deposited in trust for the retirement of outstanding bonds, notes or other obligations), (b) all Program Obligations and Investment Obligations made or purchased from such proceeds, (c) all Revenues (as defined in the Bond Resolution), (d) any other loans, funds, securities, Cash Equivalents or other property of the Agency otherwise pledged as security for Outstanding Bonds pursuant to a Series Resolution; and (e) all money, Investment Obligations, and other assets and income held in and receivables of Funds (other than the Alternative Loan Fund) established by or pursuant to the Bond Resolution. The Bonds, including the Series Bonds, are general obligations of the Agency, payable out of any of its moneys, assets or revenues, subject only to the provisions of other resolutions or indentures now or hereafter pledging and appropriating particular moneys, assets or revenues to particular notes or bonds, or State or federal laws or restrictions that particular funds be applied for a specified purpose. The pledge and security interests granted by the Bond Resolution shall be for the equal benefit, protection and security of Holders of all outstanding Bonds.

The Agency has no taxing power. The State of Minnesota is not liable for the payment of the Bonds, and the Bonds are not a debt of the State.

Cash Flow Certificate

The Bond Resolution requires that the Agency file a Cash Flow Certificate with the Trustee (i) at least once within a 12-month period and as otherwise required under the Bond Resolution or a Series Resolution, (ii) upon the proposed application of funds in the Revenue Fund to acquire Program Obligations or to pay Program Expenses, if not contemplated by a prior Cash Flow Certificate, or (iii) to release funds to the Agency from the Revenue Fund or to transfer funds to the Endowment Fund. The Bond Resolution also permits a revised Cash Flow Certificate to be filed at any time directed by the Agency. The Cash Flow Certificate is to give effect to the action proposed to be taken and demonstrating that in the current and in each succeeding Fiscal Year in which Bonds are scheduled to be Outstanding that Revenues and other amounts expected to be on deposit in the Funds and Accounts established under the Bond Resolution or any Series Resolution (excluding the Insurance Reserve Fund, the Alternative Loan Fund and, except to the extent otherwise provided in a Series Resolution, the Endowment Fund) will be at least equal to all amounts required to be on deposit in order to pay the Debt Service on the Bonds and to maintain the Debt Service Reserve Requirement and Insurance Reserve Requirement; provided that, to the extent specified in a Series Resolution, a Fund or Account (other than those excluded above) shall not be taken into account when preparing such Cash Flow Certificate. The Cash Flow Certificate is to set forth the assumptions upon which the estimates therein are based, which assumptions shall be based upon the Agency's reasonable expectations at the time such Cash Flow Certificate is filed. The Agency may assume in a Cash Flow Certificate that, if Bonds of a series are issued for purposes other than the Financing of Program Loans for the acquisition of owner-occupied housing, amounts to be deposited in or irrevocably appropriated to any Fund or Account established under the Bond Resolution (other than the Alternative Loan Fund or, unless otherwise provided in a Series Resolution, the Endowment Fund) from sources not subject to the lien of this Bond Resolution will be available in amounts and at times sufficient to pay the Debt Service on Outstanding Bonds of such series when due and to maintain the Debt Service Reserve Requirement and Insurance Reserve Requirement, if any, in respect of Outstanding Bonds of such series. As set forth more fully in "Appendix D — Summary of Certain Provisions of the Bond Resolution — Revenue Fund," the Agency may withdraw from the Revenue Fund funds to be released to the Agency free and clear of the lien of the Bond Resolution, for deposit in the Agency's General Reserve Account or deposit in the Alternative Loan Fund or withdraw from the Revenue Fund funds to be transferred to the Endowment Fund, in each case upon the filing with the Trustee a Cash Flow Certificate and a Parity Certificate.

Revenues

When Revenues are greater than the amount necessary to pay maturing principal of and interest on the Bonds, the excess may, to the extent permitted by applicable federal tax law, be used to make or purchase additional Program Obligations or to redeem Bonds. If Revenues are less than the amount necessary to pay maturing principal of the Bonds, then either the Agency will provide the amount necessary for such payment from (a) the General Reserve Account of the Agency, (b) the Alternative Loan Fund or (c) from any other lawful source other than funds and accounts pledged pursuant to the Bond Resolution, or the Trustee will withdraw the necessary amount from: (i) the Bond Redemption Fund, but only to the extent that amounts therein are in excess of amounts required for the redemption of Bonds for which the notice of redemption has been given, (ii) the Revenue Fund, (iii) the Debt Service Reserve Fund, (iv) the Insurance Reserve Fund, and (v) the Endowment Fund.

Debt Service Reserve Fund

The Bond Resolution creates and establishes a Debt Service Reserve Fund and provides that the Debt Service Reserve Requirement as of any date shall be the sum of amounts established for each Series of Bonds by each Series Resolution. The aggregate Debt Service Reserve Requirement with respect to the Series Bonds is equal, as of the date of calculation, to three percent (3%) of the aggregate principal amount of the then Outstanding Series Bonds, initially, $2,550,000.

The balance in the Debt Service Reserve Fund on December 31, 2005, was $23,218,000, which was at least equal to the Debt Service Reserve Fund Requirement for the Series of Bonds then Outstanding.

The Act provides that the Agency may create and establish one or more debt service reserve funds for the security of its bonds. The moneys held in or credited to a debt service reserve fund shall be used solely for the payment of principal of bonds of the Agency as the same mature, the purchase of such bonds, the payment of interest thereon or the payment of any premium required when such bonds are redeemed before maturity, provided that the moneys in such fund shall not be withdrawn therefrom at any time in such amount as would reduce the amount reasonably necessary for the purposes of the fund, except for the purpose of paying principal and interest due on the bonds secured by the fund for the payment of which other moneys of the Agency are not available. The Agency shall not issue any additional bonds or notes which are secured by a debt service reserve fund if the amount in that debt service reserve fund or any other debt service reserve fund at the time of such issuance does not equal or exceed the minimum amount required by the resolution creating such fund unless the Agency shall deposit in each such fund at the time of such issuance from the proceeds of the bonds or otherwise an amount which, together with the amount then in the fund, will be no less than the minimum amount so required. The Act further provides that:

> In order to assure the payment of principal and interest on bonds and notes of the agency and the continued maintenance of all debt service reserve funds created and established therefor, the agency shall annually determine and certify to the governor, on or before December 1, (a) the amount, if any, then needed to restore each debt service reserve fund to the minimum amount required by the resolution or indenture establishing the fund, not exceeding the maximum amount of principal and interest to become due and payable in any subsequent year on all bonds or notes which are then outstanding and secured by such fund; and (b) the amount, if any, determined by the agency to be needed in the then immediately ensuing fiscal year, with other funds pledged and estimated to be received during that year, for the payment of the principal and interest due and payable in that year on all then outstanding bonds and notes secured by a debt service reserve fund the amount of which is then less than the minimum amount agreed. The governor shall include and submit to the legislature, in the budget for the following fiscal year, or in a supplemental budget if the regular budget for that year has previously been approved, the amounts certified by the agency....

In the opinion of Bond Counsel and counsel to the Agency, the State Legislature is legally authorized *but is not legally obligated* to appropriate such amounts.

Insurance Reserve Fund

The Bond Resolution creates and establishes an Insurance Reserve Fund to be used for the purpose of paying that portion of the claim for loss with respect to any defaulted Program Obligation which is not paid by a public or private insuring agency. As of any particular date of calculation, the Insurance Reserve Requirement is the sum of amounts, if any, established for each Series of Bonds by the respective Series Resolutions. The Insurance Reserve Requirement with respect to the Series Bonds is $0.

The balance in the Insurance Reserve Fund on December 31, 2005, was $8,574,000, which was at least equal to the Insurance Reserve Requirement for all Series of Bonds then Outstanding.

Additional Bonds

The Bond Resolution permits the issuance of additional Bonds, upon the adoption of a series resolution, without limitation as to amount, to provide funds for the purpose of financing the making or purchase of Program Obligations and, in addition, to refund outstanding Bonds or other obligations of the Agency. No additional series of Bonds may be issued except upon verification by the Trustee (i) that an amount equal to the Debt Service Reserve Requirement effective upon issuance of such Bonds will be on deposit in the Debt Service Reserve Fund and an amount equal to the Insurance Reserve Requirement effective upon issuance of such Bonds will be on deposit in the Insurance Reserve Fund, (ii) that the estimated Revenues set forth in an Agency Certificate are in excess of required fund transfers and debt service on the Bonds in each Fiscal Year as set forth in the Agency Certificate and (iii) that the then existing ratings of the Bonds will not be impaired. A Cash Flow Certificate need not be filed in connection with the issuance of additional Bonds unless the series resolution authorizing Bonds of the series so provides.

Any additional Bonds issued under the Bond Resolution will be on parity with the Series Bonds and all other outstanding Bonds and will be entitled to the equal benefit, protection and security of the provisions, covenants and agreements of the Bond Resolution.

State Pledge Against Impairment of Contracts

The State in the Act has pledged to and agreed with the Bondholders that it will not limit or alter the rights vested in the Agency to fulfill the terms of any agreements made with them or in any way impair the rights and remedies of the Bondholders until the Bonds, together with the interest thereon and on any unpaid installments of interest, and all costs and expenses in connection with any action or proceeding by or on behalf of such Bondholders, are fully met and discharged.

RESIDENTIAL HOUSING FINANCE PROGRAM

Under the Bond Resolution, the Agency may issue bonds to make or purchase Program Obligations in order to provide financing for housing for low and moderate income persons, including financing for single family loans, home improvement loans, multifamily loans and other housing-related loans, and to secure such loans in such manner as the Agency determines, which would include first mortgage loans, subordinate mortgage loans or loans which are unsecured. All series of Bonds issued under the Bond Resolution are secured on a parity. The proceeds of the Series Bonds will be used to purchase Program Loans consisting of single family mortgage loans. The Agency does not currently anticipate that future series of Bonds issued under the Bond Resolution will finance Program Obligations other than single family loans or home improvement loans.

All series resolutions adopted to date have provided for the issuance of Bonds under the Bond Resolution for the purpose of financing single family mortgage loans or home improvement loans. For a general description of the current home improvement program, which is subject to change from time to time, see "Home Improvement Program."

The description of the Program contained in this and the following sections is subject to change subject to applicable federal and state law.

PROGRAM LOANS TO BE MADE FROM SERIES BONDS

Procedures for Origination and Purchase

General

The following provides a general description of the Agency's Program in respect of the Program Loans constituting single family mortgage loans to be financed with proceeds of Bonds, which is subject to change from time to time as provided in the Resolutions. *The Series Program Determinations governing the Program Loans to be financed with proceeds of the Series Bonds may be revised by the Agency from time to time as provided in the Bond Resolution and consequently the following general description is subject to change.*

Application

The Agency's Program provides funds for the purchase by the Agency of newly originated Program Loans at a price and bearing interest at rates to be established on the basis of the interest cost of the Bonds and local mortgage market conditions. Except with respect to Home Improvement Program Loans described herein, Program Loans purchased by the Agency historically have had 30-year terms. However, the Agency is considering implementing a program to offer Program Loans with 40-year terms. The Agency intends to purchase Program Loans with the proceeds of the Series Bonds on terms resulting in an effective rate sufficient to pay, together with other available funds under the Resolution, the principal of and interest on the Series Bonds, the costs of servicing the Program Loans and other Program Expenses. The Agency may make loan commitments in advance of issuing bonds. As of January 20, 2006, the Agency had committed to purchase loans in the amount of $29,347,627 at a weighted average interest rate of 5.679%. Additionally, the Agency purchased loans in the amount of $13,267,004 at a weighted average interest rate of 5.321% between October 18, 2004 and November 22, 2004. Some or all of the purchases of these loans may be reimbursed with proceeds of the Series Bonds. The Agency may require the payment of discount points to reduce the overall interest rate on the Program Loans, provide adequate compensation to Lenders and defray Agency operation costs and expenses.

In connection with the Program, the Agency has published the MHFA Mortgage Program Procedural Manual (the "Manual") which sets forth the guidelines and procedures for participation in the Program and the requirements for origination of Program Loans, including provisions for compliance with the requirements of applicable federal law. The Agency responds to inquiries by interested lenders by sending them information regarding the requirements a lender must satisfy to be eligible to participate in the Program. Each Lender that meets Program requirements and participates in the Program either executes or has executed a lender commitment agreement (the "Agreement") which incorporates the Manual by reference. Generally, Lenders that participate in the Program receive no advance commitment of funds from the Agency (see exceptions in "Special Assistance Programs" below). Rather, Lenders may fax the Agency for an individual commitment of Program Loan funds on a case-by-case basis as each application is taken and initially screened by the Lender. The Program Loan funds are then to be reserved for each specific case for a specific term. Should a specific case ultimately be declined or cancelled, the funds are available for use by another eligible borrower and Lender. The amount of funds that may be used by an individual participating Lender is to be determined by the Program Loan demand experienced by the Lender.

Upon execution of the Agreement by the Agency, each Lender headquartered in the HUD-identified Metropolitan Statistical Areas of Duluth-Superior, MN-WI, Fargo-Moorhead, ND-MN, Grand Forks, ND-MN, LaCrosse, WI-MN, Minneapolis-St. Paul, MN-WI, Rochester, MN and St. Cloud, MN must pay an initial fee of $5,000 to participate in the Program and an annual renewal fee of $2,500, Lenders headquartered in the balance of the State must pay an initial participation fee of $2,000 and an annual renewal fee of $1,000, unless payment of such fees is specifically modified or waived by the Agency. Lenders are not required to pay a reservation fee upon initial telecopied reservation of an individual commitment. If the Agency has not purchased a Program Loan pursuant to an individual commitment after 90 days where an existing home is to be financed or after 120 days for the Minnesota Mortgage Program and the Minnesota City Participation program and 150 days for the CASA Program if a newly constructed home is to be financed, the Agency, at its option, may charge and, if so charged, the Lender must agree to pay an extension fee to maintain the individual commitment for a specified, extended period of time. Participation fees are deposited into the Homeownership and Home Improvement Endowment Funds. Unrefunded extension fees, if charged, are deposited into the funds from which the loans are purchased, namely the Homeownership and Home Improvement Endowment Funds and the Residential Housing Finance bond fund.

Qualified Borrowers

The Agency has established the maximum gross income for eligible borrowers under the Program based upon applicable federal law and Agency policy objectives. The maximum gross income of an eligible borrower under the Program is currently as follows (higher maximum incomes are currently permitted in connection with "Special Assistance Programs" and "Agency Bond Issuance on Behalf of Local Governments" described below):

Persons in Household

Location of Mortgaged Property	One to Four Member Household	Five Member Household	Six Member Household	Seven Member Household	Eight + Member Household
11-County Twin Cities Metropolitan Area	$62,000	$67,000	$71,500	$76,500	$81,500
Olmsted County	$58,000	$63,000	$67,500	$72,000	$77,000
Balance Of State	$54,000	$58,000	$62,500	$66,500	$71,000

The Agency will apply the limitations set forth in Section 143(f) of the Internal Revenue Code of 1986, as amended (the "Code"), to applicants for Program Loans from the proceeds of the Series Bonds. The Agency may revise said income limits for the Program and for Homeownership Assistance Fund Loans from time to time to conform with State and federal law and Agency policy objectives.

At the time the Program Loan is made, the borrower must certify his or her intention to occupy the mortgaged property as his or her principal residence.

Credit underwriting must be in compliance with Federal Housing Administration (the "FHA"), the Veterans Administration (the "VA"), the USDA Rural Development (formerly the Rural Housing and Community Development Service) ("USDA Rural Development") and/or mortgage industry accepted underwriting standards. For loans which are not insured or guaranteed by FHA, VA or USDA Rural Development, the Agency requires Federal National Mortgage Association ("FNMA"), Federal Home Loan Mortgage Corporation ("FHLMC") or private mortgage insurance standards as defined in the Manual.

Certain borrowers may be eligible for assistance for entry costs, monthly principal and interest payments, "entry cost assistance plus" loans or all three forms of subsidy, if needed for borrower qualification. See "Homeownership Assistance Fund Loans" below.

Program Loans

Program Loans may be purchased from (1) Lenders including any bank, savings bank, mutual savings bank, savings and loan association, building and loan association organized under the laws of Minnesota or the United States or non-profit licensed by the State of Minnesota, and any mortgagee or lender approved or certified by the Secretary of Housing and Urban Development or by the Administrator of Veterans Affairs, or (2) any agency or instrumentality of the United States or the State.

Under the Series Resolution, the Agency must take or require a Servicer to take all measures, actions and proceedings reasonably necessary and deemed by it to be most effective to recover the balance due on a Defaulted Program Loan, including the curing of the default by the Mortgagor, foreclosure of the Mortgage, acceptance of a conveyance in lieu of foreclosure, sale of the Mortgage, renting or selling the Home, collection of any applicable mortgage insurance or guaranty, and preservation of the title to and value of the Home pending recovery of the balance of the Defaulted Program Loan. See "State Laws Affecting Foreclosures" in Appendix E.

Qualified Real Property

Pursuant to the Manual, Program Loans may be purchased for (1) residential property in Minnesota on which is located an owner-occupied one or two-family dwelling, or (2) an owner-occupied residential unit in a condominium, townhouse or planned unit development.

The Agency has established maximum purchase prices under the Program pursuant to the requirements of applicable federal law. For the Series Bonds maximum purchase prices for both one and two-family homes currently are as follows (higher purchase prices are currently permitted in connection with "Special Assistance Programs" and "Agency Bond Issuance on Behalf of Local Governments" described below):

	The Minnesota Mortgage Program
If the property to be mortgaged is located in:	
Twin Cities Metropolitan Area	$298,125
Balance of State	$237,031

The Agency may revise said maximum purchase prices from time to time to conform with applicable State and federal law and Agency policy objectives. The financing of new construction in the 11-county Twin Cities metropolitan area is limited by state law.

Special Assistance Programs

Notwithstanding the above, the Agency may set aside the proceeds of the Series Bonds under the Program for special assistance program components to meet specified housing needs identified by the Agency. Under such program components, the Agency may commit or otherwise provide access to proceeds to such entities as Lenders, units of local government or local housing and redevelopment authorities, nonprofit housing providers, builders/developers, and other entities that, in turn, will provide housing finance opportunities that address a specified housing need to qualified borrowers purchasing qualified real property.

All Program Loans originated under special assistance program components shall be qualified Program Loans as described above.

Both borrowers and properties under special assistance program components are to be in compliance with FHA/VA/USDA Rural Development and/or mortgage industry accepted underwriting standards. The Agency may elect to either reduce or increase the income and/or house price limits provided herein incident to a specific assistance program component, but in all circumstances, the Agency will assure that the applicable limits meet the requirements of federal law.

Agency Bond Issuance on Behalf of Local Governments

State law provides the process and procedures by which applicable units of local government may request an allotment and subsequent allocation of qualified mortgage bond authority from a statewide housing pool established for this purpose. In 1990, the State Legislature passed a law which enables applicable units of local government to assign their qualified mortgage bond authority to the Agency which may then issue bonds on behalf of local governments up to the amount of allocation assigned to the Agency.

Under the terms by which the Agency has agreed to accept the assignment of bond allocation, the Agency is to set aside the amount of funds allocated for each unit of local government for the exclusive use of said local government in the geographic area designated by same for a six month period. During the set-aside period, Lenders designated by the unit of local government may reserve Program Loans for specific cases for a specific term in accordance with the Manual. Should any funds remain unreserved at the end of the six-month set-aside period, remaining funds are then to be available for Program Loans to be reserved by any other participating units of local government for an additional two-month period. At the end of the two-month period, any unreserved funds are available to the Agency for general program purposes.

All Program Loans originated pursuant to Agency bond issuance on behalf of units of local government shall be qualified Program Loans as described above. Both borrowers and properties are to be in compliance with FHA, VA, USDA Rural Development and/or mortgage industry accepted underwriting standards. However, participating units of local government do have the authority to set aside funds to meet locally identified housing goals or address special program purposes within their geographic areas.

Homeownership Assistance Fund Loans

The Agency has established a Homeownership Assistance Fund created with appropriations by the State Legislature from which Homeownership Assistance Fund loans are made. In addition, the Agency has established a Homeownership Endowment Fund within the Bond Resolution which is also a source of funding for these loans. A Homeownership Assistance Fund loan is a second mortgage loan made by the Agency to the Mortgagor for one of three purposes: (i) to assist in the payment of entry costs (i.e., required down payment and closing costs) on the home (up to a maximum of $3,000); (ii) to assist in the payment of monthly principal and interest on the Program Loan in an amount of $1,440; or (iii) to provide an "entry cost assistance plus" loan in the amount necessary to reduce the Program Loan payments to an affordable level (up to a maximum of $10,000). Eligible Mortgagors may receive either entry cost assistance or payment assistance separately or together, but may receive the "entry cost assistance plus" loan only after application of the first two forms of assistance fail to qualify them for the Program Loan. At the time the Program Loan is made, the Agency agrees to provide assistance and the Mortgagor agrees to repay such loan upon sale, transfer, refinancing, when the first mortgage on the loan is paid in full or when the property is no longer occupied by the Mortgagor.

Mortgagors who meet program income requirements, program targeting criteria and who do not have sufficient cash for down payment and closing costs are eligible for entry cost assistance of up to $3,000. Mortgagors that wish to receive monthly payment assistance or an "entry cost assistance plus" must attend qualified homebuyer classroom instruction for at least six hours before the Program Loan is closed. This requirement does not apply to Mortgagors that receive only entry cost assistance.

Assistance for monthly principal and interest payments is also available to the Mortgagor at the program income limits previously noted. Monthly assistance payments are made in increments of $60 during year one; $40 during year two and $20 during year three. Monthly assistance payments cease after year three. In making a Program Loan, the monthly assistance payments will be taken into account in determining the ability of the Mortgagor to pay principal of and interest on the Program Loan over its term.

Mortgagors whose housing debt ratio is greater than 27% of their total income and who will receive monthly payment assistance may also be eligible for an "entry cost assistance plus" loan in an amount necessary to reduce their housing debt ratio to 27%, but not to exceed $10,000. The "entry cost assistance plus" loan is available to Mortgagors who qualify under the program income limits and obtain loans under the Agency's Community Activity Set Aside Program.

The total of the entry cost assistance, monthly payment assistance and "entry cost assistance plus" assistance is a deferred loan which is due on sale, transfer or refinancing or when the property is no longer occupied by the Mortgagor.

The Agency is presently reviewing the Homeownership Assistance Fund program, and expects to make some changes in the types and amounts of the assistance provided to Mortgagors under the Homeownership Assistance Fund program. The review of the Homeownership Assistance Fund program has not been completed, and changes if proposed will be prospective and may or may not affect assistance to Mortgagors receiving loans from the proceeds of the Series Bonds.

Program Loans made or purchased from the proceeds of a series of Bonds may or may not include Homeownership Assistance. The Homeownership Assistance Fund has not been pledged to and is not available for the payment of principal or interest on the Bonds. Amounts on deposit in the Homeownership Endowment Fund are available for the payment of principal of or interest on the Bonds, subject to the programmatic uses of the Homeownership Endowment Fund under the Bond Resolution, but the Agency has not covenanted to maintain any minimum balance in the Homeownership Endowment Fund or otherwise to assure that funds will be available in the Homeownership Endowment Fund for purposes of payment or security of the Bonds.

The Agency may use a portion of the proceeds of the Series Bonds to make loans for the purpose of entry cost assistance, monthly assistance and "entry cost assistance plus." Any such loans will also be Program Loans pledged to the payment of principal of and interest on the Bonds.

Target Areas

Pursuant to applicable federal law, target areas have been established for the Program. Target areas consist of certain census tracts in the State in which 70 percent of the families have an annual income of 80 percent or less of the statewide median income or areas determined by the State and approved by the Secretary of the Treasury of the United States and the Secretary of the United States Department of Housing and Urban Development to be areas of chronic economic distress (the "Target Areas"). The Agency will make available the required amount of the Series Bond proceeds for the purchase of Program Loans financing the purchase of residences located in Target Areas and will advertise the availability of Series Bond funds for Program Loans in Target Areas. The Agency is also required to exercise reasonable diligence in seeking to finance residences in Target Areas with Series Bond proceeds. Absent any determination by the Agency that further availability of the Series Bond proceeds is required by federal law, any moneys remaining unused may be made available to finance the purchase of residences located anywhere within the State, or may be used to redeem Series Bonds.

Servicing

Under the Program, the Agency has set forth requirements for the servicing and accounting of Program Loans in a Servicing Manual. Servicing may be granted to Lenders that demonstrate adequate technical capability to the Agency's satisfaction. Each Servicer must maintain at all times a fidelity bond and an errors and omissions policy issued by a company having a current rating in Best's Insurance Reports of A/AAA or better. Servicers are required to ensure that mortgagors maintain on each home a hazard insurance policy providing fire and extended coverage equal to or greater than that customary in the geographic area in which the home is located. Servicers are required to advise the Agency if a home is exposed to a risk not otherwise covered by the hazard insurance policy and the Agency may require additional coverage.

The Agency requires its Servicers to supply reports and other data sufficient to reconcile the transactions within its loan portfolio. Servicers remit mortgage collections daily to the Trustee. The Agency has established specific requirements for Servicers regarding the procedures to be followed in cases involving delinquencies. In addition to a monthly report requirement, Servicers are required, by following the Agency's procedures, to bring a delinquency current in the shortest possible time. The Agency may, at any time, terminate a servicing agreement and re-assign servicing. Under the Program, Servicers will receive as compensation a monthly servicing fee not to exceed 0.375%/12 of the outstanding principal amount of Program Loans.

Applicable Federal Law Mortgage Eligibility Requirements

Applicable federal law imposes significant limitations on the financing of mortgage loans on owner occupied one- to four-family residences with the proceeds of a qualified mortgage bond issue, such as the Series Bonds. (See "Tax Exemption and Related Considerations.")

Mortgage Loan Portfolio

As of September 30, 2005, the Agency had outstanding loans receivable of $672,718,000 gross, from the proceeds of the Outstanding Bonds. As of September 30, 2005, excluding the proceeds of short-term bonds and notes, there were approximately $81,421,000 of uncommitted proceeds from previous bond sales available for commitment. Not all loan commitments result in the purchase of a mortgage loan. The ability of the Agency to recommit funds depends on market conditions at the time a loan commitment expires without a loan closing.

The Agency's combined delinquency and foreclosure experience is currently below that for the United States as most recently published in the quarterly National Delinquency Survey by the Mortgage Bankers Association of America, as adjusted by the Agency to reflect the mix of mortgage guaranty and insurance types present in the Agency's portfolio.

HOME IMPROVEMENT PROGRAM

Procedures for Origination and Purchase

General

The following provides a general description of the Agency's Program in respect of Program Loans to finance home improvements ("Home Improvement Program Loans"), which is subject to change from time to time as provided in the Bond Resolution and any applicable series resolution.

Under its Program, the Agency intends to reimburse itself for its purchase of, or to purchase, Home Improvement Program Loans at varying terms and interest rates. The interest rates are established from time to time and are estimated to cover anticipated costs of funding the Home Improvement Program Loans, servicing the Home Improvement Program Loans and defraying a portion of other Program expenses which include compensation to Lenders and Agency operation costs and expenses. Under the Community Fix-up Fund Program, reduced interest rates on loans are available for individuals or families with gross annual household incomes equal to or less than the current home improvement loan program income limit. Subprime loans are available at higher interest rates.

Lender Application and Participation

The Home Improvement Program includes loans from the Fix-up Fund, which provides home improvement loans to low and moderate income homeowners, and the Community Fix-up Fund, which provides home improvement loans to assist a designated community in addressing its specific home improvement needs through partnerships with local lenders, nonprofit organizations, local governments and community organizations. Within the Community Fix-up Fund, sub-prime loans are available to serve households unable to qualify for conventional financing or refinancing.

The Agency may purchase Home Improvement Program Loans from participating banks, savings banks, mutual savings banks, savings and loan associations organized under the laws of Minnesota or the United States, non-profit organizations licensed by the State of Minnesota and agencies or instrumentalities of the United States or the State (the "Lenders").

In connection with the Home Improvement Program, the Agency has published the *Fix-up Fund Procedural Manual* (the "Fix-up Fund Manual") for the purchase of Home Improvement Program Loans which sets forth the guidelines and procedures for participation in the Home Improvement Program and the requirements for origination of Home Improvement Program Loans.

The Agency responds to inquiries by interested Lenders by sending them information regarding the requirements a lender must satisfy to be eligible to participate in the Home Improvement Program. Each Lender that meets the Home Improvement Program requirements and participates in the Program either executes or has executed a Participation Application and Note Purchase Agreement (the "Agreement") that incorporates the Fix-up Fund Manual by reference. Lenders that participate in the Home Improvement Program receive no advance commitment of funds from the Agency. Rather, as funds are available, Lenders may fax the Agency for an Individual Commitment of Program loan funds on a case-by-case basis as each application is taken and initially screened by the Lender. The Home Improvement Program loan funds are then reserved for each specific case for a specific term. Should a specific case ultimately be declined or cancelled, the funds are available for use by another eligible borrower and Lender. The amount of funds that may be used by an individual participating Lender is to be determined by the Home Improvement Program Loan demand experienced by the Lender.

Upon execution of the Agreement by the Agency, each Lender must pay an initial fee of $1,000 to participate in the Home Improvement Program and an annual renewal fee of $500, unless payment of such fees is specifically modified or waived by the Agency. A Lender is eligible to pay the $500 renewal fee only if the Lender has originated a minimum of six loans during the 12-month period that begins on the first July 1st that follows execution of an Agreement with the Agency.

Qualified Borrowers

Borrowers must be persons or households of low to moderate income. Low to moderate income is currently defined as gross annual household income that does not exceed 115% of the Minneapolis/St. Paul median income as published by HUD.

When the proceeds of a Home Improvement Program Loan will be made to a homeowner for improvements that will enable the homeowner or a resident of their household with a permanent physical or mental condition that substantially limits one or more major life activities to function in the subject home, Home Improvement Program Loans may be made to otherwise eligible homeowners and properties without limitations relating to the maximum income of the homeowner.

The Home Improvement Program Loan note contains certain promises and conditions including: the property to be improved must be the principal residence of the Borrower; the property to be improved is a completed home and is a year-round permanent residence; the residence is permanently attached to the land by way of a foundation and is taxed as real property; the Borrower does not use or does not intend to use more than 55% of the residence primarily for business purposes; and the Borrower has at least a one-third interest in the residence, either as owner, as holder of a life estate, or as a buyer under a contract for deed.

Additionally, the Home Improvement Program requires that the Borrower will use loan proceeds only for eligible improvements as described on the Agency's credit application; loan funds will be used and improvements completed within nine months of the date of the Home Improvement Program Loan note; the Agency has the right to inspect the property to be improved at any time from the date of the Home Improvement Program Loan note; work must comply with applicable building or housing code regulations and ordinances; and all necessary permits and licenses shall be obtained. The Home Improvement Program Loan note also contains due-on-sale, non-assumption provisions.

Loan Origination

By terms of the Agreement, Lenders are responsible for receiving applications for loans; processing applications; gathering supporting documentation to establish applicant and property compliance with Home Improvement Program eligibility requirements, including documentation showing the applicant to be solvent with reasonable ability to pay the Home Improvement Program Loan; and closing and funding Home Improvement Program Loans.

The purchase price of each Home Improvement Program Loan is the original principal balance of the subject Program Loan plus a processing fee of $450.

Warranties by Lender

The Lender warrants that the following additional documentation has been retained by the Lender and shall be made available to the Agency upon request: (1) written evidence of verification of income sources relied upon for repayment of the Home Improvement Program Loan; (2) credit report and supplementary information as appropriate for normal, prudent underwriting; (3) documentation of the current ownership of property and prior encumbrances; (4) bids and estimates for all proposed improvements; and (5) any compliance documentation required by Lender's regulatory authority. For a Home Improvement Program Loan secured with a mortgage the Lender warrants that it has submitted the original mortgage and assignment of mortgage to the county for recording, and that the recorded documents will be forwarded directly to the Agency upon receipt by the Lender.

The Lender must repurchase a Home Improvement Program Loan in the event of breach of its warranties with regard to such Program Loan.

Special Assistance Programs

Notwithstanding the above, the Agency may set aside the proceeds of Bonds under the Home Improvement Program for special assistance program components to meet specified housing needs identified by the Agency. Under such program components, the Agency may commit proceeds to Lenders that, in turn, will provide home improvement financing opportunities that address a specified need. These needs may be geographic in nature or may pertain to a homeowner's credit history, and property ownership in the form of leased land or a personal property mobile home.

Lenders are approved for the special assistance programs by way of an addendum to the Agreement specifying one or more special needs that will be targeted. The Lender may originate Home Improvement Program Loans that (1) provide a higher income limit; (2) provide a lower interest rate for lower income borrowers; (3) provide a higher loan amount; or (4) expand credit underwriting criteria to include persons who show affordability for Home Improvement Program Loan repayment but have blemishes on their credit history.

The purchase price of these special assistance Home Improvement Program Loans is the original principal balance of the subject Home Improvement Program Loan plus a processing fee of $550 or in the case of credit history issues, a $650 processing fee. Currently, the Community Fix-up Fund is the special assistance program offered by the Agency.

Terms of Home Improvement Program Loans

Home Improvement Program Loans bear simple interest, and must be structured to provide for monthly payments. The term of a Home Improvement Program Loan may not exceed 20 years. Home Improvement Program Loans are purchased in principal amounts of up to $35,000, except where consolidated with existing Agency loans, or where used exclusively for accessibility improvements, in which cases the total loan amount may not exceed $35,000. Lenders may request prior approval from the Agency to make loans exclusively for accessibility improvements in an amount greater than $35,000.

Home Improvement Program Loans are secured by a mortgage against the property if: (i) the principal amount of the Home Improvement Program Loan exceeds $10,000, (ii) the new loan plus the outstanding balances of all previously received Fix-up Fund Loans, Home Energy Loans, Community Fix-up Fund Loans and Accessibility Loans exceeds $10,000, or (iii) the lender determines that prudent lending practices require that a mortgage be taken as security for the payment of the Home Improvement Program Loan.

Mortgages on Home Improvement Program Loans are not subject to mortgage insurance and may be subordinated to an outstanding first mortgage on the property.

Home Improvement Program Loans may be prepaid at any time without penalty.

Servicing

Under the Home Improvement Program, the Agency has set forth requirements for the servicing of and accounting of Home Improvement Program Loans in a Servicing Manual. The Servicer must demonstrate adequate technical capability to the Agency's satisfaction. The Servicer must maintain at all times a fidelity bond and an errors and omissions policy issued by a company having a current rating in Best's Rating Guide of "B/IX" or better.

The Agency monitors the performance of the Servicer by reviewing the annual audited financial statements and the Servicer's systems of internal controls and reconciling monthly reports to the Agency's control accounts. The Agency has established specific requirements for the Servicer regarding the procedures to be followed in cases involving delinquencies. Under the Home Improvement Program, the Servicer will receive a monthly servicing fee not to exceed 0.95%/12 of the outstanding principal amount on Program Loans. The Agency may assign servicing to other servicers at its discretion.

Under the Series Resolution, the Agency must take or require a Servicer to take all measures, actions and proceedings reasonably necessary and deemed by it to be most effective, in light of the circumstances and the nature of the security, if any, for the Home Improvement Loan, to recover the balance due on a Defaulted Program Loan.

Home Improvement Loan Portfolio

As of September 30, 2005, the Agency had outstanding loans receivable of $112,347,000 gross, from the proceeds of the Outstanding Bonds and the Home Improvement Endowment Fund.

The Agency's combined delinquency and loss experience for the home improvement loan portfolio is currently below that for all insured U.S.-chartered commercial banks as published quarterly by the Federal Financial Institutions Examination Council in the Consolidated Reports of Condition and Income.

OTHER PROGRAMS

In addition to the Program funded from the proceeds of the Bonds, the Agency finances other housing programs which provide loans for the purchase or improvement of single family housing and the acquisition, construction or rehabilitation of multifamily rental housing in the State of Minnesota. The assets devoted to these programs are briefly described in the Notes to the Financial Statements in Appendix B.

For example, as of September 30, 2005, the Single Family Fund, which has a more extensive history than the Residential Housing Finance Fund, had outstanding loans receivable of $375,666,000 gross, from the proceeds of the Agency's outstanding single family mortgage bonds. As of September 30, 2005, no additional mortgage loans were being processed for purchase with moneys on deposit in the Single Family Fund. As of September 30, 2005, excluding the proceeds of short-term bonds and notes, there were approximately $945,000 of uncommitted proceeds from previous bond sales available for commitment. *None of the mortgage loans credited to the Single Family Fund secure or are available for the payment of principal of or interest on the Bonds.*

TAX EXEMPTION AND RELATED CONSIDERATIONS

General

The Series Bonds are subject to the requirements of Sections 143 and 148 and certain other sections of the Code.

The loan eligibility requirements of Section 143 applicable to Program Loans funded in whole or in part with proceeds of the Series Bonds are that (1) the Home on which the Program Loan is made is a single family residence which, at the time the Program Loan is made, is or can reasonably be expected within a reasonable time to become the principal residence of the Mortgagor and is located in the State; (2) except in certain limited circumstances, no part of the proceeds is to be used to acquire or replace any existing mortgage; (3) the "acquisition cost" of the Home meets certain limits; (4) the family income of the Mortgagor meets certain limits; (5) with certain exceptions, the Mortgagor shall not have had a present ownership interest in his principal residence during the preceding three years; and (6) the Program Loan shall not be assumable unless the requirements of (1), (3), (4) and (5) above are met at the time of the assumption. An issue is treated as meeting the loan eligibility requirements of Section 143 if (1) the issuer in good faith attempted to meet all of the requirements before the loans were executed; (2) 95% or more of the proceeds of the issue used to finance loans were devoted to residences which met all such requirements at the time the loans were executed or assumed; and (3) any failure to comply with the loan eligibility requirements is corrected within a reasonable period after such failure is first discovered.

The Code also imposes additional requirements to maintain the exclusion from gross income for federal income tax purposes of interest on the Series Bonds. For example, the Code limits the amount of the costs of issuance which may be paid from the proceeds of the Series Bonds and limits the size of reserve funds established with the proceeds of the Series Bonds. In addition, the Code imposes, on a continuing basis, limitations on investment of the proceeds of the Series Bonds and requires earnings on non-mortgage investments in excess of the yield on the Series Bonds to be rebated to the United States.

The Agency has included provisions in the Resolutions, the Manual and other relevant documents, and has established procedures (including receipt of certain affidavits and warranties from Lenders, Mortgagors and others respecting the mortgage eligibility requirements) in order to ensure compliance with the requirements of the Code which must be met subsequent to the date of original issuance of the Series Bonds. The Agency has covenanted in the Resolutions to do all things necessary to assure that interest on the Series Bonds will be excludable from federal gross income and not to permit any proceeds of the Series Bonds to be used in a manner which violates any of the restrictions contained in applicable federal law. In the opinion of Bond Counsel, the Manual and the Agency's covenants in the Resolutions establish procedures under which the requirements of applicable federal law can be met. Noncompliance with the requirements in the Manual and Resolutions may cause interest on the Series Bonds to become includable in the federal gross income of the owners thereof retroactive to the date of issue.

Assuming compliance with certain covenants in the Manual and Resolutions intended to assure compliance with the Code and with the procedures established by the Agency, in the opinion of Dorsey & Whitney LLP, Bond Counsel, under existing laws, regulations, rulings and decisions, interest on the Series Bonds is not includable in gross income of the owners thereof for federal income tax purposes.

The Code imposes an alternative minimum tax with respect to individuals and corporations on alternative minimum taxable income. *In the opinion of Bond Counsel, interest on the 2006 Series B Bonds and the 2006 Series C Bonds, but not the 2006 Series A Bonds, will be treated as a preference item for purposes of calculating the federal alternative minimum taxable income of individuals and corporations. Interest on the 2006 Series A Bonds will be included in adjusted current earnings for purposes of computing federal alternative minimum taxes imposed on corporations.*

In addition, in the opinion of Bond Counsel, interest on the Series Bonds is not includable in the taxable net income of individuals, trusts and estates for Minnesota income tax purposes. *Interest on the 2006 Series B Bonds and the 2006 Series C Bonds, but not the 2006 Series A Bonds, is includable in income for purposes of calculating the Minnesota alternative minimum tax applicable to individuals, trusts and estates*. Interest on the Series Bonds is includable in the income of financial institutions and corporations for purposes of the Minnesota franchise tax.

Section 86 of the Code and corresponding provisions of Minnesota law require recipients of certain social security and railroad retirement benefits to take interest on the Series Bonds into account in determining the taxability of such benefits. Passive investment income, including interest on the Series Bonds, may be subject to taxation under Section 1375 of the Code, and corresponding provisions of Minnesota law, for an S corporation that has accumulated earnings and profits at the close of the taxable year, if more than 25 percent of its gross receipts is passive investment income. Section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Series Bonds, and Minnesota law similarly denies a deduction for such interest in the case of individuals, estates and trusts. Indebtedness may be allocated to the Series Bonds for this purpose even though not directly traceable to the purchase of the Series Bonds. Federal and Minnesota laws also restrict the deductibility of other expenses allocable to the Series Bonds. In the case of a financial institution, no deduction is allowed under the Code for that portion of the holder's interest expense which is allocable to interest on the Series Bonds within the meaning of Section 265(b) of the Code. In the case of an insurance company subject to the tax imposed by Section 831 of the Code, the amount which otherwise would be taken into account as losses incurred under Section 832(b)(5) of the Code must be reduced by an amount equal to 15 percent of the interest on the Series Bonds that is received or accrued during the taxable year. Interest on the Series Bonds may be included in the income of a foreign corporation for purposes of the branch profits tax imposed by Section 884 of the Code, and is included in net investment income of foreign insurance companies under Section 842(b) of the Code.

The market value and marketability of the Series Bonds may be adversely affected by future changes in federal or Minnesota tax treatment of interest on the Series Bonds or by future reductions in income tax rates.

The PAC Term Bonds are being issued at a premium to the principal amount payable at maturity. Except in the case of dealers, which are subject to special rules, Bondholders who acquire the PAC Term Bonds must, from time to time, reduce their federal and Minnesota income tax bases for the PAC Term Bonds for purposes of determining gain or loss on the sale or payment of such PAC Term Bonds. Premium generally is amortized for federal and Minnesota income and franchise tax purposes on the basis of a Bondholder's constant yield to maturity or to certain call dates with semiannual compounding. Bondholders who acquire PAC Term Bonds at a premium might recognize taxable gain upon the sale of the PAC Term Bonds, even if such PAC Term Bonds are sold for an amount equal to or less than their original cost. Amortized premium is not deductible for federal or Minnesota income tax purposes. Bondholders who acquire PAC Term Bonds at a premium should consult their tax advisors concerning the calculation of bond premium and the timing and rate of premium amortization, as well as the state and local tax consequences of owning and selling PAC Term Bonds acquired at a premium.

THE FOREGOING IS NOT INTENDED TO BE AN EXHAUSTIVE DISCUSSION OF COLLATERAL TAX CONSEQUENCES ARISING FROM OWNERSHIP OR DISPOSITION OF THE SERIES BONDS OR RECEIPT OF INTEREST ON THE SERIES BONDS. PROSPECTIVE PURCHASERS OR BONDHOLDERS SHOULD CONSULT THEIR TAX ADVISORS WITH RESPECT TO COLLATERAL TAX CONSEQUENCES AND APPLICABLE STATE AND LOCAL TAX RULES IN STATES OTHER THAN MINNESOTA.

Certain State Tax Legislation

Minnesota Statutes, Section 289A.50, subdivision 10, includes a statement of legislative intent that interest on obligations of Minnesota governmental units and Indian tribes be included in the net income of individuals, trusts and estates for Minnesota income tax purposes if a court determines that Minnesota's exemption of such interest unlawfully discriminates against interstate commerce because interest on obligations of governmental issuers in other states is so included. This provision applies to taxable years that begin during or after the calendar year in which any such court decision becomes final, irrespective of the date upon which the obligations were issued. To the knowledge of the Agency, courts in only two states have addressed whether a state's exemption of interest on its own bonds or those of its political subdivisions, but not of interest on the bonds of other states or their political subdivisions, unlawfully discriminates against interstate commerce or otherwise contravenes the United States Constitution. A court in Ohio decided in 1994 that the Ohio law was not unconstitutional, but the Kentucky Court of Appeals held early in 2006 that the Kentucky law violated the Commerce Clause. The Agency cannot predict the likelihood that interest on the Series Bonds would become taxable (for Minnesota income tax purposes) under Section 289A.50, subdivision 10.

LEGAL MATTERS

The validity of and the tax exemption of interest on the Series Bonds are subject to the opinion of Dorsey & Whitney LLP, Minneapolis, Minnesota, Bond Counsel. The respective opinions of Bond Counsel will be provided in substantially the forms set forth in Appendix G attached hereto. Certain legal matters will be passed upon for the Underwriters by their counsel, Kutak Rock LLP, Atlanta, Georgia. Certain legal matters will be passed upon for the Initial Liquidity Provider by its counsel, Winston & Strawn LLP, Chicago, Illinois.

FINANCIAL ADVISOR

The Agency has appointed Caine Mitter & Associates Incorporated to serve as financial advisor to the Agency on matters related to the issuance of the Series Bonds.

UNDERWRITERS

The Series Bonds will be purchased by the Underwriters listed on the cover page hereof. UBS Investment Bank is the trade name under which UBS Securities LLC will be performing underwriting services in connection with the Series Bonds. RBC Capital Markets is the trade name under which RBC Dain Rauscher Inc. will be performing underwriting services in connection with the Series Bonds.

The Underwriters are to be paid a fee of $485,769.94 with respect to the purchase of the Series Bonds. The Underwriters may offer and sell such Series Bonds to certain dealers and certain dealer banks at prices lower than the public offering prices stated on the inside front cover hereof.

MISCELLANEOUS

This Official Statement is submitted in connection with the offering of the Series Bonds and may not be reproduced or used, as a whole or in part, for any other purposes. Any statement made or incorporated in this Official Statement involving matters of opinion or estimates, whether or not expressly so stated, are set forth as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the Agency and the purchasers or holders of any of the Series Bonds.

The execution and delivery of this Official Statement have been duly authorized by the Agency.

MINNESOTA HOUSING FINANCE AGENCY

By /s/ Timothy E. Marx
Commissioner

Dated: February 9, 2006.

APPENDIX A

CERTAIN FINANCIAL STATEMENTS REGARDING THE RESIDENTIAL HOUSING FINANCE FUND AND THE GENERAL RESERVE

APPENDIX A

CERTAIN FINANCIAL STATEMENTS REGARDING THE RESIDENTIAL HOUSING FINANCE FUND AND THE GENERAL RESERVE

(Unaudited)

For the three months ended September 30, 2005

As prepared by the Agency's Accounting Department

MINNESOTA HOUSING FINANCE AGENCY
STATEMENTS OF NET ASSETS
(for specified funds)
(unaudited)
(in thousands)

The following information with respect to the General Reserve and Residential Housing Finance Fund (the Funds) for the period ended September 30, 2005 was prepared by the Agency, and, in the opinion of the Agency, includes all accounting adjustments necessary for a fair statement of the financial position and results of operations of those Funds for the period ended September 30, 2005. However, this presentation excludes all other funds of the Agency as well as management's discussion and analysis which are required by generally accepted accounting principles. This information has not been reviewed by independent auditors and is not accompanied by any opinion from them. The information in this Appendix A should be read in connection with the audited financial statements included in Appendix B, including the notes to the financial statements.

	September 30, 2005 (unaudited)	
	General Reserve	Residential Housing Finance
ASSETS		
Cash and cash equivalents	$ 3,800	$ 685,584
Investment securities	111,976	78,168
Loans receivable, net	-	1,010,308
Interest receivable on loans	-	4,296
Interest receivable on investments	990	6,259
Mortgage insurance claims receivable	-	357
Real estate owned	-	224
Unamortized bond issuance costs	-	6,395
Capital assets, net	2,683	-
Other assets	1,081	19
Total Assets	$ 120,530	$ 1,791,610
LIABILITIES AND NET ASSETS		
Liabilities:		
Bonds payable, net	$ -	$ 1,295,320
Interest payable	-	11,156
Accounts payable and other liabilities	2,070	1,970
Interfund payable (receivable)	1,505	(46,967)
Funds held for others	81,987	-
Total liabilities	85,562	1,261,479
Net Assets:		
Restricted by bond resolution	-	264,030
Restricted by covenant	32,285	266,101
Invested in capital assets	2,683	-
Total net assets	34,968	530,131
Total liabilities and net assets	$ 120,530	$ 1,791,610

MINNESOTA HOUSING FINANCE AGENCY
STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
(for specified funds)
(unaudited)
(in thousands)

The following information with respect to the General Reserve and Residential Housing Finance Fund (the Funds) for the period ended September 30, 2005 was prepared by the Agency, and, in the opinion of the Agency, includes all accounting adjustments necessary for a fair statement of the financial position and results of operations of those Funds for the period ended September 30, 2005. However, this presentation excludes all other funds of the Agency as well as management's discussion and analysis which are required by generally accepted accounting principles. This information has not been reviewed by independent auditors and is not accompanied by any opinion from them. The information in this Appendix A should be read in connection with the audited financial statements included in Appendix B, including the notes to the financial statements.

	For Three Months Ended September 30, 2005 (unaudited)	
	General Reserve	Residential Housing Finance
Revenues:		
Interest earned on loans……………………	$ -	$ 13,739
Interest earned on investments……………..	248	6,536
Administrative reimbursement………………	4,399	-
Fees earned and other income…………….	1,851	107
Unrealized losses on securities net…………………………………………	(59)	(826)
Total revenues………………………………	6,439	19,556
Expenses:		
Interest…………………………………………	-	11,240
Loan administration and trustee fees……….	-	820
Administrative reimbursement………………	-	1,704
Salaries and benefits…………………………	3,413	-
Other general operating……………………..	1,037	357
Reduction in carrying value of certain low interest rate deferred loans…………..		1,167
Provision for loan losses……………………	-	695
Total expenses……………………………..	4,450	15,983
Revenues over (under) expenses…………	1,989	3,573
Other charges:		
Non-operating transfer of assets between funds………………………………	(568)	8,668
Change in net assets…………………………	1,421	12,241
Total net assets, beginning of year…………	33,547	517,890
Total net assets, end of year…………………	$ 34,968	$ 530,131

MINNESOTA HOUSING FINANCE AGENCY
STATEMENTS OF CASH FLOWS
(for specified funds)
(unaudited)
(in thousands)

The following information with respect to the General Reserve and Residential Housing Finance Fund (the Funds) for the period ended September 30, 2005 was prepared by the Agency, and, in the opinion of the Agency, includes all accounting adjustments necessary for a fair statement of the financial position and results of operations of those Funds for the period ended September 30, 2005. However, this presentation excludes all other funds of the Agency as well as management's discussion and analysis which are required by generally accepted accounting principles. This information has not been reviewed by independent auditors and is not accompanied by any opinion from them. The information in this Appendix A should be read in connection with the audited financial statements included in Appendix B, including the notes to the financial statements.

	For Three Months Ended September 30, 2005 (unaudited)	
	General Reserve	Residential Housing Finance
Cash flows from operating activities:		
Principal repayments on loans……………	$ -	$ 29,861
Investment in loans…………………………	-	(136,918)
Interest received on loans…………………	-	13,547
Other operating……………………………..	-	(357)
Fees and other income received…………	1,940	199
Salaries, benefits and vendor payments….	(5,369)	(2,682)
Administrative reimbursement from funds…………………………………	3,258	(1,693)
Interest transferred to funds held for others……………………………………	(713)	-
Deposits into funds held for others……….	9,016	-
Disbursements made from funds held for others……………………………………	(6,125)	-
Interfund transfers and other assets………	(825)	(24,025)
Net cash provided (used) by operating activities…………………………	1,182	(122,068)
Cash flows from noncapital financing activities:		
Proceeds from sale of bonds………………	-	162,991
Principal repayment on bonds…………….	-	(185,680)
Interest paid on bonds and notes…………	-	(18,193)
Financing costs paid related to bonds issued………………………………………	-	(1,242)
Interest paid/received between funds…….	-	868
Principal paid/received between funds……	-	150
Agency contribution to program funs…….	-	8,100
Transfer of cash between funds…………..	(1,138)	1,138
Net cash provided (used) by noncapital financing activities……………	(1,138)	(31,868)
Cash flows from investing activities:		
Investment in real estate owned…………	-	(48)
Interest received on investments…………	766	157
Proceeds from sale of mortgage insurance claims/real estated owned…..	-	522
Proceeds from maturity, sale, or transfer of investment securities…………	5,000	39,526
Purchase of investment securities……….	(6,851)	(34,003)
Purchase of loans between funds…………	-	(11,245)
Net cash provided (used) by investing activities…………………………	(1,085)	(5,091)
Net increase in cash and cash equivalents……………………..	(1,041)	(159,027)
Cash and cash equivalents, net:		
Beginning of year…………………………..	4,841	844,611
End of year………………………………….	$ 3,800	$ 685,584

MINNESOTA HOUSING FINANCE AGENCY
STATEMENTS OF CASH FLOWS (continued)
(for specified funds)
(unaudited)
(in thousands)

The following information with respect to the General Reserve and Residential Housing Finance Fund (the Funds) for the period ended September 30, 2005 was prepared by the Agency, and, in the opinion of the Agency, includes all accounting adjustments necessary for a fair statement of the financial position and results of operations of those Funds for the period ended September 30, 2005. However, this presentation excludes all other funds of the Agency as well as management's discussion and analysis which are required by generally accepted accounting principles. This information has not been reviewed by independent auditors and is not accompanied by any opinion from them. The information in this Appendix A should be read in connection with the audited financial statements included in Appendix B, including the notes to the financial statements.

	For Three Months Ended September 30, 2005 (unaudited)	
	General Reserve	Residential Housing Finance
Revenues over (under) expenses……………	$ 1,989	$ 3,573
Adjustments to reconcile revenues over (under) expenses to net cash provided (used) by operating activities:		
Amortization of premiums and fees on loans…………………………	-	167
Depreciation………………………………….	194	
Realized (gains) on securities, net…………………………………………..	-	(43)
Unrealized losses on securities, net…………………………………………..	59	826
Provision for loan losses……………………	-	695
Reduction in carrying value of certain low interest rate deferred loans…………	-	1,167
Capitalized interest on loans and real estate owned………………………………	-	(19)
Interest earned on investments……………	(248)	(7,253)
Interest expense on bonds and notes…….	-	11,240
Changes in assets and liabilities:		
Increase in loans receivable, excluding loans transferred between funds………..	-	(107,057)
Increase in interest receivable on loans………………………	-	(340)
Increase in arbitrage rebate liability………	-	760
Interest transferred to funds held for others………………………………………	(713)	-
Decrease in accounts payable…………….	(1,116)	(1,771)
(Decrease) in interfund payable, affecting operating activities only………..	(1,514)	(24,019)
Increase in funds held for others…………	2,891	-
Other…………………………………………..	(360)	6
Total adjustments…………………………..	(807)	(125,641)
Net cash provided (used) by operating activities…………………………	$ 1,182	$ (122,068)

MINNESOTA HOUSING FINANCE AGENCY
CASH, CASH EQUIVALENTS AND INVESTMENT SECURITIES
(for specified funds)
(unaudited)
(in thousands)

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Cash and Cash Equivalents

Cash and cash equivalents are stated at cost which approximates market and are composed of the following at September 30, 2005:

Funds	Deposits	Money Market Funds	Investment Agreements	Combined Totals
General Reserve……………………………….	$ 160	$ 3,640	$ -	$ 3,800
Residential Housing Finance………………..	1,966	43,557	640,061	685,584

Investment Securities

Investment securities are recorded at fair market value and are composed of the following at September 30, 2005:

	Fair Market Value		
Funds	US Treasuries and Agencies at Amortized Costs	Unrealized Appreciation/ (Depreciation) in Fair Market Value	Estimated Market Value
General Reserve……………………………….	$ 112,997	$ (1,021)	$ 111,976
Residential Housing Finance………………..	77,732	436	78,168

MINNESOTA HOUSING FINANCE AGENCY
LOANS RECEIVABLE, NET
(for specified funds)
(unaudited)
(in thousands)

The following information with respect to the General Reserve and Residential Housing Finance Fund (the Funds) for the period ended September 30, 2005 was prepared by the Agency, and, in the opinion of the Agency, includes all accounting adjustments necessary for a fair statement of the financial position and results of operations of those Funds for the period ended September 30, 2005. However, this presentation excludes all other funds of the Agency as well as management's discussion and analysis which are required by generally accepted accounting principles. This information has not been reviewed by independent auditors and is not accompanied by any opinion from them. The information in this Appendix A should be read in connection with the audited financial statements included in Appendix B, including the notes to the financial statements.

Loans receivable, net at September 30, 2005 consist of:

Funds	Outstanding Principal	Allowance for Loan Losses	Unamortized Discounts and Fees	Loans Receivable, Net
General Reserve…………………………………	$ -	$ -	$ -	$ -
Residential Housing Finance……………….	1,063,835	(52,493)	(1,034)	1,010,308

MINNESOTA HOUSING FINANCE AGENCY
BONDS PAYABLE, NET
(for specified funds)
(unaudited)
(in thousands)

The following information with respect to the General Reserve and Residential Housing Finance Fund (the Funds) for the period ended September 30, 2005 was prepared by the Agency, and, in the opinion of the Agency, includes all accounting adjustments necessary for a fair statement of the financial position and results of operations of those Funds for the period ended September 30, 2005. However, this presentation excludes all other funds of the Agency as well as management's discussion and analysis which are required by generally accepted accounting principles. This information has not been reviewed by independent auditors and is not accompanied by any opinion from them. The information in this Appendix A should be read in connection with the audited financial statements included in Appendix B, including the notes to the financial statements by any opinion from them. The information in this Appendix A should be read in connection with the audited financial statements included in Appendix B, including the notes to the financial statements.

Bonds payable, net at September 30, 2005 are as follows:

Funds	Outstanding Principal	Net Unamortized Premium	Bonds Payable, Net
General Reserve……………………………….	$ -	$ -	$ -
Residential Housing Finance………………..	1,291,030	4,290	1,295,320

Beginning in fiscal year 2006, deferred financing costs are presented as Unamortized Bond Issuance costs, which is an asset on the statement of net assets.

MINNESOTA HOUSING FINANCE AGENCY
BONDS PAYABLE, NET (continued)
(for specified funds)
(unaudited)
(in thousands)

The following information with respect to the General Reserve and Residential Housing Finance Fund (the Funds) for the period ended September 30, 2005 was prepared by the Agency, and, in the opinion of the Agency, includes all accounting adjustments necessary for a fair statement of the financial position and results of operations of those Funds for the period ended September 30, 2005. However, this presentation excludes all other funds of the Agency as well as management's discussion and analysius which are required by generally accepted accounting principles. This information has not been been reviewed by independent auditors and is not accompanied by any opinion from them. The information in this Appendix A should be read in connection with the audited financial statements included in Appendix B, including the notes to the financial statements.

Residential Housing Finance

Outstanding Principal of bonds payble at September 30, 2005 are as follows:

Series	Interest Rates	Maturity Due	Original Amount	Outstanding Amount
1995 Series A	5.10% to 5.85%	2006-2017	53,645	6,440
2002 Series A	4.75% to 5.30%	2012-2019	14,035	5,400
2002 Series B	4.10% to 5.65%	2006-2033	59,650	24,360
2002 Series A-1	4.20% to 4.90%	2012-2019	6,860	6,860
2002 Series B-1	3.15% to 5.35%	2006-2033	25,760	22,760
2002 Series E	4.30% to 5.00%	2013-2020	12,805	11,410
2002 Series F	3.25% to 5.40%	2006-2032	52,195	41,635
2002 Series H	3.88% to 4.93%	2007-2012	20,000	20,000
2003 Series A	1.75% to 4.25%	2006-2034	40,000	37,375
2003 Series B	Variable	2033	25,000	25,000
2003 Series I	2.35% to 5.25%	2006-2035	25,000	22,960
2003 Series J	Variable	2033	25,000	24,665
2003 Series K-1	2.25%	2006	24,150	24,150
2003 Series K-2	2.25%	2006	20,045	20,045
2003 Series L-1	2.35%	2006	21,600	21,600
2003 Series L-1	2.35%	2006	111,515	111,515
2004 Series A	3.20% to 4.25%	2011-2018	22,480	21,160
2004 Series B	1.95% to 5.00%	2006-2033	94,620	85,195
2004 Series C	4.70%	2035	14,970	14,085
2004 Series E-1	4.10% to 4.60%	2012-2016	5,110	5,110
2004 Series E-2	4.40% to 4.60%	2014-2016	6,475	6,475
2004 Series F-1	2.45% to 4.50%	2006-2012	4,600	4,600
2004 Series F-2	3.20% to 5.25%	2007-2034	36,160	36,145
2004 Series G	Variable	2032	50,000	49,755
2004 Series I	2.20%	2005	740	740
2004 Series J	2.30%	2005	56,540	56,540
2004 Series K	2.30%	2005	63,045	63,045
2005 Series A	2.40% to 4.125%	2007-2018	14,575	14,575
2005 Series B	4.75% to 5.00%	2030-2035	20,425	20,425
2005 Series C	Variable	2035	25,000	25,000
2005 Series D	2.90%	2006	54,010	54,010
2005 Series E	2.95%	2006	116,005	116,005
2005 Series F	2.95%	2006	29,985	29,985
2005 Series G	4.25% to 4.30%	2017-2018	8,950	8,950
2005 Series H	3.00% to 5.00%	2007-2036	51,050	51,050
2005 Series I	Variable	2036	40,000	40,000
2005 Series J	3.625% to 4.000%	2012-2015	11,890	11,890
2005 Series K	3.00% to 4.30%	2007-2028	41,950	41,950
2005 Series L	4.75% to 5.00%	2036	48,165	48,165
2005 Series M	Variable	2036	60,000	60,000
			$ 1,414,005	$ 1,291,030

MINNESOTA HOUSING FINANCE AGENCY
BONDS PAYABLE, NET (continued)
(for specified funds)
(unaudited)
(in thousands)

The following information with respect to the General Reserve and Residential Housing Finance Fund (the Funds) for the period ended September 30, 2005 was prepared by the Agency, and, in the opinion of the Agency, includes all accounting adjustments necessary for a fair statement of the financial position and results of operations of those Funds for the period ended September 30, 2005. However, this presentation excludes all other funds of the Agency as well as management's discussion and analysis which are required by generally accepted accounting principles. This information has not been reviewed by independent auditors and is not accompanied by any opinon from them. The information in this Appendix A should be read in connection with the audited financial statements included in Appendix B, including the notes to the financial statements.

Residential Housing Finance

Using rates as of September 30, 2005, debt service requirements of the Residential Housing Finance outstanding variable rate debt and net swap payments, assuming current interest rates remain the same for their term, are as follows. As rates vary, variable rate bond interest payments and net swap payments will vary.

	Variable Rate Bonds			
Fiscal Year	Principal	Interest	Interest Rate Swaps, Net	Total
2006	$ 1,050	$ 2,916	$ 1,017	$ 4,983
2007	-	7,770	1,265	9,035
2008	-	7,770	1,001	8,771
2009	-	7,770	596	8,366
2010	-	7,770	208	7,978
2011-2015	-	38,852	(4,230)	34,622
2016-2020	14,005	38,592	(12,827)	39,770
2021-2025	52,815	33,826	(16,932)	69,709
2026-2030	77,870	22,066	(14,688)	85,248
2031-2035	70,835	8,065	(6,617)	72,283
2036-2040	7,845	361	(334)	7,872

The following information with respect to the General Reserve and Residential Housing Finance Fund for the period ended September 30, 2005 was prepared by the Agency, and, in the opinion of the Agency, includes all accounting adjustments necessary for a fair statement of the financial position and results of operations of those Funds for the period ended September 30, 2005. However, the presentation excludes all other funds of the Agency as well as management's discussion and analysis which are required by generally accepted accounting principles. This information has not been reviewed by independent auditors and is not accompanied by any opinion from them. The information in this Appendix A should be read in connection with the audited financial statements included in Appendix B, including the notes to the financial statements.

Swap Disclosure

Objective of Swaps. During 2003, 2004 and 2005 the Agency entered into interest rate swap agreements in connection with issuing variable rate revenue bonds. The intentions of the swaps were to create synthetic fixed rate debt at a lower interest rate than achievable from long-term fixed rate bonds and to achieve the Agency's goal of lending to low and moderate income, first-time home buyers at below market, fixed interest rates.

Terms of Swaps. The terms, including the fair values and credit ratings of the outstanding swaps as of September 30, 2005, are contained in the table below. The initial notional amounts of the swaps match the principal amounts of the associated debt. The Agency's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled or anticipated reductions in outstanding principal amounts of the associated bond series. The Agency has purchased the cumulative right, based upon a 300% Bond Market Association (BMA) prepayment rate on the underlying mortgage loans, to further reduce the notional balances of the swaps as necessary and the right to terminate the outstanding swap balances at par value on or after the 10 year anniversary dates of the swaps.

Associated Bond Series	Current Notional Amounts	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Values	Swap Termination Date	Counterparty Credit Rating
RHFB 2003B	**$ 25,000,000**	**July 23, 2003**	**3.532%**	**65% of 1 month LIBOR* plus 0.23% per annum**	**$ 493,255**	**January 1, 2033**	**Aa2**/AA+***
RHFB 2003J	**$ 25,000,000**	**October 15, 2003**	**4.183%**	**65% of 1 month LIBOR* plus 0.23% per annum**	**$(1,247,194)**	**July 1, 2033**	**Aa2**/AA+***

continued

MINNESOTA HOUSING FINANCE AGENCY
BONDS PAYABLE, NET (continued)
(for specified funds)
(unaudited)

The following information with respect to the General Reserve and Residential Housing Finance Fund for the period ended September 30, 2005 was prepared by the Agency, and, in the opinion of the Agency, includes all accounting adjustments necessary for a fair statement of the financial position and results of operations of those Funds for the period ended September 30, 2005. However, the presentation excludes all other funds of the Agency as well as management's discussion and analysis which are required by generally accepted accounting principles. This information has not been reviewed by independent auditors and is not accompanied by any opinion from them. The information in this Appendix A should be read in connection with the audited financial statements included in Appendix B, including the notes to the financial statements.

Terms of Swaps, continued.

Associated Bond Series	Current Notional Amounts	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Values	Swap Termination Date	Counterparty Credit Rating
RHFB 2004G	$ 50,000,000	July 22, 2004	4.165%	65% of 1 month LIBOR* plus 0.23% per annum	$(2,213,678)	January 1, 2032	Aa2**/AA-***
RHFB 2005C	$ 25,000,000	March 2, 2005	3.587%	64% of 1 month LIBOR* plus 0.28% per annum	$(292,080)	January 1, 2035	Aa2**/AA+***
RHFB 2005I	$ 40,000,000	June 2, 2005	3.57%	64% of 1 month LIBOR* plus 0.28% per annum	$(425,824)	January 1, 2036	Aa1**/AA-***
RHFB 2005M	$ 60,000,000	August 4, 2005	3.373%	64% of 1 month LIBOR* plus 0.29% per annum	$ 146,552	January 1, 2036	Aa1**/AA-***
Total	$225,000,000				$(3,538,969)		

* - London Inter-Bank Offered Rate
** - Moody's Investor Service, Inc.
*** - Standard & Poor's Inc.

The following information with respect to the General Reserve and Residential Housing Finance Fund for the period ended September 30, 2005 was prepared by the Agency, and, in the opinion of the Agency, includes all accounting adjustments necessary for a fair statement of the financial position and results of operations of those Funds for the period ended September 30, 2005. However, the presentation excludes all other funds of the Agency as well as management's discussion and analysis which are required by generally accepted accounting principles. This information has not been reviewed by independent auditors and is not accompanied by any opinion from them. The information in this Appendix A should be read in connection with the audited financial statements included in Appendix B, including the notes to the financial statements.

Swap Valuation. The Fair Values presented above were estimated by the Agency's counterparties to the swaps. The valuation was determined by calculating the difference between the present values of each fixed cash flow to be paid and each floating cash flow to be received by the Agency based upon the current market yield curve. The present value factors for each cash flow are based on the implied zero coupon yield curve determined by current market rates. Additionally, the values of the call options are determined by calculating the present value of each predicted option outcome, whose interest rate prediction variance is determined by current market implied volatility. Together these calculations determine the current fair value of the Agency's swap contracts. The Fair Values in the table above represent the termination payments that would have been due had the swaps been terminated as of September 30, 2005. A positive fair value represents money due the Agency by the counterparty upon termination of the swap while a negative fair value represents money payable by the Agency.

Termination Risk. The Agency's swap contracts are based upon the International Swap Dealers Association Master Agreement, which includes standard termination events. The swap contracts may be terminated by either party if the other party fails to perform under the terms of the contract. Upon termination, a payment is due to one party irrespective of causality based upon the fair value of the swap. The potential termination risks to the Agency are the liability for a termination payment to the counterparty or the inability to replace the swap under favorable financial terms. To reduce the Agency's termination risk, the swap contracts limit the counterparty's ability to terminate due to the following Agency actions or events: payment default, other defaults that remain uncured for 30 days after notice, bankruptcy and insolvency.

Credit Risk. The terms of the swaps expose the Agency to potential credit risk with the counterparty upon the occurrence of a termination event. The fair value of a swap represents the Agency's current credit exposure to the counterparties with which the swaps were executed. As of September 30, 2005, the Agency did not have a net credit risk exposure to its counterparties because the swaps had a negative net fair value. The swap agreements contain varying collateral requirements based upon counterparties' credit rating and the fair value of the swap. These bi-lateral requirements are established to mitigate potential credit risk exposure. These requirements were met as of September 30, 2005.

Amortization Risk. The Agency may incur amortization risk because prepayments from the mortgage loan portfolio may cause the outstanding amount of variable rate bonds to decline faster than the amortization of the swap. To ameliorate amortization risk, call options were structured within the swaps to enable the Agency to closely manage the outstanding balances of variable rate bonds and notional swap amounts. Additionally, the Agency may terminate the swaps at market value at any time.

MINNESOTA HOUSING FINANCE AGENCY
BONDS PAYABLE, NET (continued)
(for specified funds)
(unaudited)

The following information with respect to the General Reserve and Residential Housing Finance Fund for the period ended September 30, 2005 was prepared by the Agency, and, in the opinion of the Agency, includes all accounting adjustments necessary for a fair statement of the financial position and results of operations of those Funds for the period ended September 30, 2005. However, the presentation excludes all other funds of the Agency as well as management's discussion and analysis which are required by generally accepted accounting principles. This information has not been reviewed by independent auditors and is not accompanied by any opinion from them. The information in this Appendix A should be read in connection with the audited financial statements included in Appendix B, including the notes to the financial statements.

Basis Risk. The Agency incurs the potential risk that the variable interest payments on its bonds will not equal the variable interest receipts from its swaps. This basis risk exists because the Agency pays a variable rate on its bonds based on the weekly tax-exempt BMA rate but under the terms of its swaps receives a variable rate based upon the one-month, taxable LIBOR rate. Basis risk will vary over time due to inter-market conditions. As of September 30, 2005, the interest rate on the Agency's variable rate debt ranged from 2.77% to 2.83% per annum while the variable interest rates on the swaps ranged from 2.62% to 2.65% per annum. In order to reduce the cumulative effects of basis risk, the variable rate determination structure for interest receipts within the swap is based upon a regression analysis of the long-term relationship between these two interest rate indices.

Tax Risk. The structure of the variable interest rate payments the Agency receives from its swap contracts are based upon the historical long-term relationship between taxable and tax-exempt short-term interest rates. Tax risk represents a risk that may arise due to a change in the tax code that may fundamentally alter this relationship. The Agency has chosen to assume this risk because it was economically unfeasible to transfer to the swap counterparties.

APPENDIX B

FINANCIAL STATEMENTS

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MINNESOTA HOUSING FINANCE AGENCY
Annual Financial Report as of and for the year ended June 30, 2005

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MINNESOTA HOUSING FINANCE AGENCY
Commissioner's Report

In my fiscal year 2004 report I concluded that we begin "the next fiscal year with a compelling mission, a sound plan, and with the financial and organizational capacity to execute." I am pleased to report that this conclusion was well founded, as the Agency completed another fiscal year during which it built upon its record of solid financial performance, significantly advanced its mission for the people of Minnesota, and conducted and began responding to its quadrennial Risk Based Capital Study for the purpose of assuring its future financial strength and ability to carry out its housing program mission.

Financially, the Agency continued to increase the net assets of its bond funds and General Reserve. This was aided by a significant increase in volume in our mortgage revenue bond program and significantly lower mortgage loan prepayments as the interest rate environment stabilized. Net assets of the State Appropriated fund decreased as expected due to spending down appropriations accumulated from prior years.

The Agency continued to advance the goals set forth in our current strategic plan, which was completed in February, 2004:

- End long-term homelessness;
- Increase minority homeownership;
- Preserve strategically the existing affordable housing stock;
- Increase housing choices for low- and moderate-income workers; and
- Establish the MHFA as a housing partner of choice.

The business plan to end long-term homelessness was finalized in March, 2004, and the first year benchmark for 200 units to be financed and in process was exceeded by 74. A number of stakeholders are investing—programmatically and financially—in this ambitious effort, and progress continues to be made in spite of significant challenges.

On June 30, 2005, a business plan to increase minority homeownership through the Emerging Markets Homeownership or EMHI was finalized and presented to the community. Development of the plan was lead by the Agency, the Fannie Mae Minnesota Partnership Office, and the Federal Reserve Bank of Minneapolis. Over 50 stakeholder groups, representing the Minnesota homeownership industry and the communities it serves, helped develop the plan, which sets a goal of 40,000 new emerging market Minnesota homeowners by 2012. Implementation is now underway.

Significant efforts and initiatives to advance the other goals are also in progress. Overall, there was continued strong demand for the Agency's programs. In the last program year (October 1, 2003 to September 30, 2004), the Agency continued its efforts to provide decent, safe, and affordable housing by serving nearly 56,000 households; 46% of the households served, excluding those living in Section 8 project-based housing, had annual incomes under $20,000 and among tenants of Section 8 housing, 90% had incomes below $20,000 in 2004. The Agency provided $534 million of housing assistance in two main areas: First, $317 million for homeownership programs, primarily in the form of first mortgages and related entry cost assistance, and also for home improvement programs; and second, $217 million for rental housing programs, including financing of new construction, rehabilitation, preservation of federal assistance, and rental assistance. The decrease from the previous year for rental housing programs is largely due to several large loans having been closed in 2003 and reduced demand due to increased rental vacancy rates. The increase in housing assistance for homeownership programs over the previous year is attributable primarily to robust housing markets throughout the state, continuous availability of Agency first mortgage and home improvement resources, a strong network of lender delivery partners, and active program promotion and outreach. As of the end of the last fiscal year, the Agency oversaw a portfolio of more than 22,000 first mortgage and deferred loans for homeownership, 15,000 second mortgage loans for

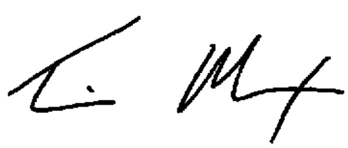
MINNESOTA HOUSING FINANCE AGENCY
Commissioner's Report (continued)

home improvement and 1,200 first mortgage and deferred loans for rental housing as well as administering the federal tax credit program.

The state of Minnesota's recently adopted biennial general fund budget and its capital budget reflect a continued commitment by the Governor and the Legislature to address the state's affordable housing needs. Just over $70.5 million was appropriated to the Agency for housing programs in 2006-07, a slight increase from the previous biennium, and a capital bonding appropriation of $12 million was provided to the Agency in support of the ending long-term homelessness initiative. In addition, the legislature took other action to support the state's housing needs including providing property tax relief to subsidized housing (a program to be administered by the Agency) and providing additional funding to other agencies which are working collaboratively with the Agency to implement the long-term homelessness initiative.

Finally, the Agency has worked with its financial advisor to complete the quadrennial Risk Based Capital Study. The study confirms that the Agency is able to meet its obligations to bondholders and maintain its current bond ratings. The study also projects that the Agency will continue to increase its net assets, but at a slower pace than in the past due to a number of market factors and policy decisions. Slower growth in net assets at a time when there are increasing housing program needs for these resources presents a challenge which the Agency must confront to maintain its financial strength and ability to address the housing needs of the future. The study makes a number of recommendations to address this issue, each of which will be pursued as the next two year affordable housing plan or program budget for federal fiscal years 2006-07 is developed and implemented.

The strength of an organization can, in part, be determined by its ability to anticipate challenges, understand them, and turn them into opportunities. The Risk Based Capital Study has allowed us to anticipate and understand the challenge of slower growth in our net worth. We are now about the business of identifying the opportunities this challenge will allow us to pursue. I am confident that I will be able to report progress on this matter, as well as continued progress in advancing the Agency's strategic goals, next year.



Timothy E. Marx, Commissioner
Minnesota Housing Finance Agency
August 15, 2005

Independent Auditors' Report

To the Members of the
Minnesota Housing Finance Agency
St. Paul, Minnesota

We have audited the accompanying financial statements of the business-type activities and each major fund (General Reserve, Rental Housing, Residential Housing Finance, Single Family, State Appropriated, and Federal Appropriated) of Minnesota Housing Finance Agency (the Agency), a component unit of the State of Minnesota, as of and for the year ended June 30, 2005, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund (General Reserve, Rental Housing, Residential Housing Finance, Single Family, State Appropriated, and Federal Appropriated) of the Agency, as of June 30, 2005, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 6 through 17 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The introductory section and supplemental information is presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory section and supplemental information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Larson, Allen, Weishair Co., LLP

Minneapolis, Minnesota
August 15, 2005

MINNESOTA HOUSING FINANCE AGENCY
Management's Discussion and Analysis of Financial Condition and Results of Operations

This discussion should be read in conjunction with the financial statements and notes thereto.

Introduction

The Minnesota Housing Finance Agency (MHFA or the Agency) was created in 1971 by an Act of the Minnesota legislature. It was established to facilitate the construction and rehabilitation of housing in Minnesota for families of low- and moderate-income by providing for mortgage loans, development loans, and technical assistance to qualified housing sponsors to be used for construction and rehabilitation of housing. MHFA is a component unit of the State of Minnesota and receives appropriations from the state legislature, substantially all of which are used to make loans or grants under specified non-bond-financed programs. MHFA also receives funds appropriated by the federal government for similar purposes.

MHFA is authorized to issue bonds and other obligations to fulfill its corporate purposes up to a total outstanding amount of $3.0 billion. The bonds and other obligations by law are not a debt of the State of Minnesota or any political subdivision thereof.

MHFA operates two program divisions — Multifamily and Minnesota Homes — which offer housing programs with funding from the sale of tax-exempt and taxable bonds, state and federal appropriations, allocation of the Federal Low Income Tax Credit, Minnesota's Housing Trust Fund and MHFA's endowment funds and Alternative Loan Fund.

The members of MHFA (hereinafter referred to as the Board) consist of six members appointed at large by the Governor and one ex officio member (the State Auditor).

Independent Auditor Rotation

It is the Agency's normal business practice to rotate the engagement of its independent auditor each four years. During fiscal year 2005, the Agency solicited requests for proposals from qualified national and regional independent audit firms, resulting in the engagement of Larson, Allen, Weishair & Co., LLP for the next four years.

Risk Based Capital Study

Every four years the Agency conducts an extensive study of the credit worthiness and financial condition of its funds (not including State and Federal Appropriated accounts). The resulting report, known as the Risk Based Capital Study (Study), then becomes the basis for decisions about allocating resources and managing debt during the subsequent four years. The new Study, completed during fiscal year 2005, included a careful analysis of cash flows and other financial information to assure the appropriate matching of future liquidity to debt service obligations and affordable housing programs. Individual Agency funds were analyzed using expected-case economic assumptions and stress-case economic assumptions to determine their capital adequacy in various scenarios. The Study concludes that each individual fund is adequately capitalized to meet bond obligations and maintain credit ratings.

Discussion of Financial Statements

The financial section consists of three parts — independent auditors' report, management's discussion and analysis (this section), and the basic financial statements. The basic financial statements include two kinds of statements that present different views of MHFA:

- The first two statements are Agency-wide financial statements that provide information about MHFA's overall financial position and results of operations. These statements, which are presented on the accrual basis, consist of the Statement of Net Assets and the Statement of Activities. Significant interfund transactions have been eliminated within the Agency-wide statements. Assets and revenues of the separate funds that comprise the Agency-wide financial statements are generally restricted as to use and the reader should not assume they may be used in any aggregate manner.
- The remaining statements are fund financial statements of MHFA's six proprietary funds, which are also presented on the accrual basis because of the similarity of their operations to that of business activities.

Discussion of Financial Statements (continued)

- The financial statements also include "Notes to Financial Statements" which provide more detailed explanations of certain information contained in the Agency-wide and fund financial statements.
- Additional supplementary information is presented following the Notes to Financial Statements for certain funds of MHFA, which have been established under the bond resolutions under which MHFA borrows funds for its programs. These funds consist of General Reserve and the bond funds, which are Rental Housing, Residential Housing Finance, and Single Family.

The basic financial statements also include comparative totals as of and for the year ended June 30, 2004. Although not required, these comparative totals are intended to facilitate an enhanced understanding of MHFA's financial position and results of operations for the current fiscal year in comparison to the prior fiscal year.

Discussion of Individual Funds

General Reserve

The purposes of General Reserve are to maintain sufficient liquidity for MHFA operations, to hold escrowed funds and to maintain the Housing Endowment Fund (also referred to as Pool 1). On the Statement of Revenues and Expenses for General Reserve, only the costs of administering MHFA programs are captured. The fees earned are generally related to the administration of the federal housing tax credit program, administration of the federal Housing Assistance Payment program, and contract administration of the Section 8 program for developments not financed by MHFA.

Rental Housing

The majority of the loans presently held in Rental Housing receive Section 8 payments under contracts that are for substantially the same length of time as the mortgage loans.

Inherent risks remain in these portfolios, especially in the multifamily developments without project-based tenant subsidies. Maintaining asset quality remains a high priority for MHFA, so this portfolio continues to receive a significant amount of MHFA staff attention.

All of MHFA's new bond-financed multifamily loans are financed in Rental Housing. A portion of MHFA's Alternative Loan Fund is also available to finance multifamily developments.

Residential Housing Finance

Included within Residential Housing Finance are the bonds issued and outstanding under the resolution, the Bond Restricted Home Improvement, Homeownership, and Multifamily Endowment Funds, and the Restricted by Covenant Alternative Loan Fund consisting of the Housing Investment Fund (also referred to as Pool 2) and Housing Affordability Fund (also referred to as Pool 3).

Bonds issued to date were for the purpose of funding purchases of single family first mortgage and home improvement subordinated mortgage loans. The majority of the single family loans held under these bond issues are insured by private mortgage insurance or the Federal Housing Administration (FHA), or guaranteed by the U.S. Department of Veterans Affairs (VA) or the U.S. Department of Agriculture Rural Development (RD). This bond resolution is the principal source of financing for bond-financed homeownership programs. MHFA may also issue bonds for its home improvement loan program in this fund although no bonds were issued to support home improvement lending during fiscal year 2005.

The Home Improvement Endowment Fund continues to be the principal source of financing for MHFA's home improvement loan programs. Loan repayments were utilized to finance new loan activity for home improvement loan programs during fiscal year 2005.

The Homeownership Endowment Fund is a source of funding for entry cost housing assistance for first-time homebuyers, below-market interim financing during construction and/or rehabilitation of single family housing and for warehousing loans.

Discussion of Individual Funds (continued)

The Multifamily Endowment Fund is the principal source of funding for innovative multifamily programs that are not candidates for bond financing, such as a tenant services program, a contingency fund, non-profit capacity building, flexible financing, incentive loans and a program for leveraging investments in neighborhoods and communities.

The Housing Investment Fund is currently invested in investment grade housing loans, as defined by MHFA, and may also be used to advance funds to retire high rate debt and to warehouse loans.

The Housing Affordability Fund includes a housing administration contingency fund, consisting of cash and investment grade housing loans, as defined by MHFA, for future administrative costs and other funds that may be used as a source of funding for bond sale contributions, multifamily first and subordinated mortgage loans, including zero-percent deferred loans, and other below-market rate loans with higher than ordinary risk factors. It may also be used to advance funds to retire high rate debt and to warehouse loans.

Single Family

This fund was historically the principal source of financing for MHFA's bond-financed homeownership programs. In fiscal year 2002 MHFA began to utilize the Residential Housing Finance Fund as its principal source of financing for these programs because of the increased flexibility afforded by that bond resolution. Certain Single Family funds in excess of bond resolution requirements are budgeted for and used for bond sale contributions in connection with bonds issued under the Residential Housing Finance Bonds resolution.

The majority of the loans in Single Family have either FHA insurance or a VA or RD guarantee. Delinquency and foreclosure rates continue to track with the Minnesota Mortgage Bankers Association averages.

In addition to the uses described above, funds in excess of bond resolution requirements for each bond resolution described above are budgeted for and used to redeem bonds, to fund housing programs and for Agency operations.

State and Federal Appropriated Funds

The appropriated funds are maintained by MHFA for the purpose of receiving and disbursing monies legislatively appropriated by the state and federal government for housing. All of the appropriated funds' net assets are restricted by law for specified uses set forth in the state appropriations or federal contracts and are not pledged to support the bondholders or creditors of MHFA.

The State Appropriated Fund was established to account for funds received from the state legislature, which are to be used for programs for low-to moderate-income persons and families in the form of low-interest loans, no-interest deferred loans, innovative development and other housing-related program costs.

The Federal Appropriated Fund was established to account for funds received from the federal government which are to be used for programs for low-to moderate-income persons and families in the form of no-interest deferred loans, grants, support to other non-profit housing organizations and other housing-related program costs.

General Overview

The following discussion is organized with two primary users in mind. The first primary user may be characterized with a focus on financial information particularly relevant from the perspective of bondholders and creditors of MHFA. The second primary user may be characterized with a focus on financial information particularly relevant to public funds appropriations, and the public policies those funds support.

The Agency defines the term "major funds" to include: General Reserve, Rental Housing, Residential Housing Finance, Single Family, State Appropriated, and Federal Appropriated.

General Overview (continued)

MHFA financial statements are presented in combined "Agency-wide" form followed by "fund" financial statements presented for its major funds. The combined Agency-wide financial statements are provided to display a comprehensive view of all MHFA funds as required by accounting principles generally accepted in the United States of America. The Agency-wide financial statements reflect totals of similar accounts of various funds. However, substantially all of the funds in these accounts are restricted as to use by Agency resolutions or legislation as further described below.

Assets and revenues of the bond funds are restricted to uses specifically described in their respective bond resolutions and are pledged for the primary benefit of the respective bondholders and creditors. General Reserve is created under the MHFA bond resolutions as part of the pledge of the general obligation of MHFA. MHFA covenants in the bond resolutions that it will use the assets in General Reserve only for administration and financing of programs in accordance with the policy and purpose of the MHFA enabling legislation, including reserves for the payment of bonds and notes and of loans made from the proceeds thereof, and shall accumulate and maintain therein such a balance of funds and investments as will be sufficient for the purpose.

MHFA has no taxing power and neither the State of Minnesota nor any subdivision thereof is obligated to pay the principal or interest on debt and bonds issued by MHFA. The state has pledged to and agreed with bondholders that it will not limit or alter the rights vested in MHFA to fulfill the terms of any agreements made with bondholders or in any way impair the rights and remedies of the bondholders.

Public funds directly appropriated to MHFA by the State of Minnesota or made available to MHFA from the federal government are restricted by law to specified uses set forth in the state appropriations or federal contracts. Assets and revenues of State Appropriated and Federal Appropriated Funds are not pledged to support the debt or general obligations of MHFA.

In addition to its audited annual financial statements, MHFA publishes quarterly disclosure reports for the Single Family and Residential Housing Finance bond resolutions, and semi-annual disclosure reports for the Rental Housing bond resolution. These disclosure reports can be found on MHFA's web site at www.mhfa.state.mn.us.

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)
Condensed Financial Information

Selected Elements From Statement of Net Assets (in $000's)

		Agency-wide Total(1) 2005	Agency-wide Total(1) 2004	Change $	Combined General Reserve and Bond Funds 2005	Combined General Reserve and Bond Funds 2004
Assets	Cash and Investments	1,389,770	1,335,512	54,258	1,314,505	1,249,343
	Loans receivable, Net	1,542,662	1,413,897	128,765	1,514,094	1,384,804
	Interest Receivable	11,151	11,334	(183)	10,826	10,820
	Total Assets	2,950,176	2,767,995	182,181	2,845,272	2,650,746
Liabilities	Bonds Payable	2,016,086	1,844,589	171,497	2,016,086	1,844,589
	Interest Payable	35,959	36,283	(324)	35,959	36,283
	Funds Held for Others	80,457	88,163	(7,706)	79,628	86,510
	Total Liabilities	2,149,821	1,986,907	162,914	2,148,080	1,983,768
Net Assets	Restricted by Bond Resolution	400,831	387,747	13,084	400,831	387,747
	Restricted by Covenant	293,597	277,457	16,140	293,597	277,457
	Restricted by Law	103,163	114,110	(10,947)	—	—
	Total Net Assets	800,355	781,088	19,267	697,192	666,978

Selected Elements From Statement of Revenues, Expenses, and Changes in Net Assets (in $000's)

		Agency-wide Total(1) 2005	Agency-wide Total(1) 2004	Change $	Combined General Reserve and Bond Funds 2005	Combined General Reserve and Bond Funds 2004
Revenues	Interest Earned	127,327	134,431	(7,104)	125,342	132,544
	Appropriations Received	195,611	189,913	5,698	—	—
	Fees and Reimbursements	10,930	10,344	586	26,624	23,232
	Total Revenues	352,642	338,726	13,916	154,240	146,754
Expenses	Interest Expense	79,863	89,514	(9,651)	79,863	89,514
	Appropriations Disbursed	173,842	180,098	(6,256)	—	—
	Fees and Reimbursements	5,297	5,339	(42)	17,451	14,834
	Payroll, Gen. & Admin.	20,842	20,310	532	19,817	19,165
	Loan Loss/Value Adjustments	37,087	48,894	(11,807)	6,895	4,722
	Total Expenses	333,375	357,818	(24,443)	124,026	128,235
	Revenues over Expenses	19,267	(19,092)	38,359	30,214	18,519
	Beginning Net Assets	781,088	800,180	(19,092)	666,978	648,459
	Ending Net Assets	800,355	781,088	19,267	697,192	666,978

(1) Agency-wide totals include interfund amounts.

Change $	Combined State and Federal Appropriations Funds 2005	2004	Change $
65,162	75,265	86,169	(10,904)
129,290	28,568	29,093	(525)
6	325	514	(189)
194,526	104,904	117,249	(12,345)
171,497	—	—	—
(324)	—	—	—
(6,882)	829	1,653	(824)
164,312	1,741	3,139	(1,398)
13,084	—	—	—
16,140	—	—	—
—	103,163	114,110	(10,947)
30,214	103,163	114,110	(10,947)

Change $	Combined State and Federal Appropriations Funds 2005	2004	Change $
(7,202)	1,985	1,887	98
—	195,611	189,913	5,698
3,392	750	775	(25)
7,486	198,402	191,972	6,430
(9,651)	—	—	—
—	173,842	180,098	(6,256)
2,617	4,290	4,168	122
652	1,025	1,145	(120)
2,173	30,192	44,172	(13,980)
(4,209)	209,349	229,583	(20,234)
11,695	(10,947)	(37,611)	26,664
18,519	114,110	151,721	(37,611)
30,214	103,163	114,110	(10,947)

FINANCIAL HIGHLIGHTS

When reading the following financial highlights section referring to the General Reserve and bond funds, the reader is encouraged to review the Fund Financial Statements included as supplementary information in the 2005 Financial Report.

General Reserve and Bond Funds — Statement of Net Assets

In recent years, the type of assets in General Reserve and bond funds has been comparatively stable with loans receivable, investments, cash, cash equivalents, and interest receivable comprising the majority of assets. Equipment, fixtures, furniture, capitalized software costs, and other assets continue to be insignificant in relation to the total General Reserve and bond fund assets.

Loans receivable, net is the largest single category of bond fund assets. Loans are limited to housing-related lending that supports a public mission objective. Loans receivable, net increased 9% to $1,514 million at June 30, 2005 as a result of new loan purchases and originations net of repayments, prepayments, and loss reserves. There are no loan assets in General Reserve.

Investments, cash, and cash equivalents are the next largest categories of assets and are carefully managed to assure adequate resources for future debt service requirements and liquidity needs. The combined investments, cash, and cash equivalents increased 5% to $1,315 million at June 30, 2005 due to proceeds of loan prepayments on hand and higher levels of debt outstanding at fiscal year end.

Interest receivable on loans and investments is a function of the timing of interest payments and the general level of interest rates. Combined loan and investment interest receivable increased negligibly to $10.826 million at June 30, 2005.

Bonds payable, net is the largest single category of liabilities, resulting from debt issued to fund housing-related lending that supports MHFA's mission. Bonds payable increased 9% to $2,016 million at June 30, 2005 resulting from new debt issuance, redemptions, and bond maturities.

The companion category of interest payable decreased 1% to $35.959 million at June 30, 2005 as a result of lower average cost of bonds outstanding.

There is no debt issued in General Reserve. General Reserve does recognize a significant liability for funds held for others. These funds are routinely collected and held in escrow on behalf of multifamily borrowers pursuant to the loan documents and are used for future periodic payments of real property taxes, casualty insurance premiums, and certain operating expenditures. Funds held for others in General Reserve decreased 8% to $79.628 million at June 30, 2005 as multifamily loans were repaid and escrow balances disbursed.

Accounts payable and other liabilities increased 4% to $15.807 million at June 30, 2005 primarily as a result of higher levels of general and administrative expenses payable. The largest component of accounts payable continues to be arbitrage liability on tax-exempt bonds pursuant to federal law, which is payable to the United States Treasury. The MHFA obtains from independent valuation specialists annual calculations of its arbitrage rebate liability.

Interfund payable/receivable exists primarily as a result of pending administrative and program reimbursements among funds. Most administrative expenses are paid from General Reserve, with the bond funds and Appropriated Funds owing an administrative reimbursement to General Reserve for the respective fund's contribution to those administrative expenses.

Net assets of General Reserve and bond funds are divided into two primary categories. Net Assets Restricted by Bond Resolution are pledged to the payment of bonds, subject to bond resolution requirements that authorize MHFA to withdraw funds in excess of the amounts required to be maintained under the bond resolutions. Net Assets Restricted by Covenant are subject to a covenant with bondholders that the Agency shall use the money in General Reserve (including the Alternative Loan Fund) only for the administration and financing of programs in accordance with the policy and purpose of the MHFA enabling legislation, including the creation of reserves for the

General Reserve and Bond Funds — Statement of Net Assets (continued)

payment of bonds and of loans made from the proceeds thereof, and shall accumulate and maintain therein such a balance of funds and investments as will be sufficient for the purpose. The Board of the Agency has established investment guidelines for these funds to ensure that funds are preserved to provide financial security for the Agency's bondholders as covenanted in the bond resolutions. Net assets increased 5% to $697.192 million at June 30, 2005 as a result of consistent financial performance of the bond funds.

General Reserve and Bond Funds — Revenues Over Expenses

Revenues over expenses of General Reserve and bond funds remained adequate in fiscal year 2005, increasing from fiscal year 2004 after considering the net effect of unrealized gains and losses that result from market valuation adjustments to certain investment assets. Ignoring the affects of unrealized gains and losses on investments, both total revenues and total expenses decreased compared to the prior year. Offsetting some of the unfavorable effects of interest revenue declines was the favorable effect of interest expense declines.

The largest revenue component, interest earned, decreased during the year as yields on loans and investments remained at historically low levels. Combined interest revenues of General Reserve and bond funds from loans and investments declined 5% to $125.342 million compared to the prior year, consistent with historically low interest rates. Loan interest decreased in fiscal year 2005 as new loan purchases and originations continue to be made at historically low interest rates. While investment yields increased slightly during the year, investment interest earned decreased in fiscal year 2005 as the average balance of investments, cash, and cash equivalents was lower compared to fiscal year 2004.

Administrative reimbursements to General Reserve from bond funds were $12.193 million in fiscal year 2005 compared to $9.532 million during the prior fiscal year. General Reserve also received reimbursements of $5.026 million from the State and Federal Appropriated funds to recover certain costs incurred to administer state and federal housing programs during fiscal year 2005 compared to $4.817 million during the prior fiscal year.

Other fee income to General Reserve and bond funds increased 6% to $9.405 million compared to the prior year. The primary components of other fee income continue to be federal housing tax credit program fees, Section 8 contract administration fees and federal Housing Assistance Payments administration fees.

MHFA recorded $2.274 million of unrealized gains on investment securities during fiscal year 2005, compared to $9.022 million of unrealized losses during the prior year, for a net increase of $11.296 million. As the investment securities neared maturity, market value more closely approximated par value resulting in a net unrealized gain in 2005 compared to a net unrealized loss in 2004.

Interest expense of the bond funds decreased 11% to $79.863 million compared to the prior year as a result of reduced interest rates on recently issued bonds.

Combined expenses for loan administration, trustee fees and administrative reimbursements in the bond funds increased by 18% to $17.451 million compared to the prior year. The majority of the increase results from the administrative reimbursement rate in the bond funds being restored to its historical level in fiscal year 2005 after having been reduced in fiscal year 2004 when requirements were lower. It should be noted that $12.193 million of the total administrative reimbursement revenue in General Reserve was interfund charges of the bond funds which were eliminated for purposes of financial reporting in the Agency-wide financial statements.

Salaries, benefits, and other general operating expenses in General Reserve and bond funds increased 3% to $19.817 million compared to the prior year as operating expenses continue to increase modestly.

General Reserve and Bond Funds — Revenues Over Expenses (continued)

Reductions in carrying value of certain low interest rate deferred loans in the bond funds increased by $3.246 million to $5.738 million as valuation reductions of new deferred loans exceeded recoveries from existing deferred loans.

Provision for loan loss expense in the bond funds decreased 48% to $1.157 million, consistent with management's assessment of loan portfolio risk.

Non-operating transfers occur as a result of bond sale contributions related to new debt issues, the periodic transfer of assets to maintain the Housing Endowment Fund requirement, and periodic transfers from the bond funds of amounts in excess of bond resolution requirements.

Combined revenues over expenses including unrealized gains and losses for General Reserve and the bond funds increased $11.695 million to $30.214 million compared to prior year. After considering the non-operating effects of $11.296 million of unrealized gains and losses that adjust certain investment asset values to market conditions, the combined revenues over expenses are consistent with the prior year performance. This level of net revenues over expenses remains comparable within the range of performance of General Reserve and the bond funds in recent years. Revenues over expenses in General Reserve that are in excess of the Housing Endowment Fund requirement are transferred periodically to the Housing Investment and/or Housing Affordability Fund in the Residential Housing Finance Fund for use in housing programs.

Total combined net assets of General Reserve and bond funds have increased 5% to $697.192 million as a result of revenues over expenses for fiscal year 2005. The net assets of General Reserve, Rental Housing, and Residential Housing Finance have increased while net assets of Single Family have decreased as a result of net revenues over expenses by fund and non-operating transfers of assets between funds.

State and Federal Appropriated Funds — Statement of Net Assets

Assets of the appropriated funds are derived from the appropriation of public funds by the State of Minnesota and funds made available to MHFA by the federal government for housing related policy purposes. The public policy of housing preservation and development is a long-term commitment that commonly requires appropriations received in the current period to be expended over several future years of planned development. This timing difference is the primary reason for the presence of investments, cash, and cash equivalent assets in the Appropriated Funds and for the balance of net assets restricted by law.

Investments, cash, and cash equivalents are the largest category of assets in the Appropriated Funds. The June 30, 2005 combined balance decreased 13% to $75.265 million as a result of combined disbursements for programs, loans and expenses being in excess of combined appropriations received and revenues in the current year.

Certain state appropriations are expended as housing loans with below market interest rates, resulting in loans receivable. At June 30, 2005 State Appropriated Fund loans receivable decreased 2% to $28.568 million reflecting lower current year net loan program activity.

Interest receivable in Appropriated Funds is a function of the timing of interest payments and the general level of interest rates on investments. Interest receivable on Appropriated Funds at June 30, 2005 decreased 37% to $.325 million primarily as a result of lower average investment balances.

Accounts payable and other liabilities represent amounts payable for HUD Section 236 interest reduction payments, Section 8 FA/FAF savings and accrued expenses for federal and state housing programs. The balance payable at June 30, 2005 was $1.512 million compared to $2.720 million at June 30, 2004. The reduction in accounts payable and other liabilities is largely attributable to reduced program activity.

For administrative convenience, certain State Appropriated Fund loans are administered within the bond funds, resulting in an interfund receivable for the loan disbursement and servicing

State and Federal Appropriated Funds — Statement of Net Assets (continued)

activities. Interfund payable occurs in the Federal Appropriated Fund as a result of overhead expense and indirect cost recoveries due to MHFA. At June 30, 2005 the combined net interfund receivable was $.600 million.

Funds held for others represent excess federal housing assistance payments received for the administration of the Section 8 program, HUD's share of savings from certain debt refinancing activities, and the interest income earned on those unexpended funds. At June 30, 2005 the balance of funds held for the federal government was $.829 million.

All of the net assets of the Appropriated Funds are restricted by law for use with housing programs only and are not pledged to support the bondholders or creditors of MHFA. The combined net assets of the Appropriated Funds declined to $103.163 million as of June 30, 2005 compared to the prior period, reflecting combined disbursements and expenses in excess of revenues during fiscal year 2005.

State and Federal Appropriated Funds — Revenues Over Expenses

State and federal appropriated funds are recorded as revenue in the period in which such appropriations are earned. Funds are spent for eligible program activities as defined by the various agreements between MHFA and the State of Minnesota or agencies of the federal government. Unexpended appropriations proceeds are invested and the interest income on the investments is recorded as it is earned, except for interest earned on certain unexpended federal appropriations, which is recorded as funds held for others. Similarly, interest income on certain State Appropriated fund loan receivables is recorded as it is earned.

The largest revenue category is appropriations received, and is a function of the fiscal, legislative, and political environment of the State of Minnesota and the federal government. The combined appropriations received increased from $189.913 million at June 30, 2004 to $195.611 at June 30, 2005. Federal appropriations received increased by $6.510 million while state appropriations received decreased by $.812 million.

Interest income from investments increased slightly throughout the year as investment yields in general were above the previous historically low levels while investment assets decreased during the year. The combined interest income increased 4% to $1.914 million at June 30, 2005.

Loan interest income from State Appropriations loan assets continues to be minimal at $.071 million as relatively few loans are interest bearing.

Private donations to support state housing programs in the amount of $.750 million were recognized as other income in the State Appropriated fund during the year ending June 30, 2005.

Unrealized losses on investments are recorded to reflect valuation adjustments to current market conditions for investments, and may be reversed over time as the investments are held. Combined unrealized losses decreased from $.603 million at June 30, 2004 to an unrealized gain of $.056 million at June 30, 2005 as previous losses were reversed as investment asset balances were spent in program disbursements.

Administrative reimbursements of expenses to General Reserve increased 3% to $4.251 million compared to the prior year, primarily as a result of increased expense to administer state appropriated programs. It should be noted that $4.251 million of the total administrative reimbursement revenue in General Reserve was interfund charges of the State Appropriated fund which were eliminated for purposes of financial reporting in the Agency-wide financial statements.

Combined appropriations disbursed decreased 3% to $173.842 million compared to prior year, reflecting reduced State Appropriations disbursed of $10.367 million and increased federal appropriations disbursed of $4.111 million to support housing policy objectives.

Reduced expenditures of State Appropriated Funds for below market and zero-percent interest rate loans resulted in less reductions in carrying value of certain loans. Net reductions of

State and Federal Appropriated Funds — Revenues Over Expenses (continued)

carrying value decreased 32% to $30.077 million compared to the prior year, as a result of making fewer fully reserved deferred loans for low- and moderate-income housing.

Other general operating expenses represent fees for professional and technical support to implement and administer certain state housing programs. Other general operating expense decreased 10% to $1.025 million at June 30, 2005.

Combined expenditures exceeded combined revenues of the Appropriated Funds by $10.947 million at June 30, 2005, reflecting current year disbursements of appropriations that were received in prior years. Ultimately, the entire State and Federal Appropriated Funds' net assets will be expended for housing.

Significant Long-term Debt Activity

MHFA is a significant debt issuer, having outstanding at June 30, 2005 long-term debt totaling $1,357 million and short-term debt totaling $659 million, net of deferred finance and issuance costs. MHFA bond funds are held by a trustee, who ensures that bond resolution requirements are met, including payments of debt service. At June 30, 2005, amounts held by the trustee in principal, interest and redemption accounts represented full funding of debt service requirements to that date. Bond resolutions also require funding of debt service reserve accounts and may require funding of insurance reserve accounts. At June 30, 2005, amounts held by the trustee in such reserve and revenue accounts represented full funding of those requirements to that date.

Most of the debt issued by MHFA is tax-exempt and is issued under the Internal Revenue Code and Treasury regulations governing either mortgage revenue bonds or residential rental projects. MHFA's ability to issue tax-exempt debt is limited by MHFA's share of the state's allocation of the private activity volume cap, which is set in Minnesota law. MHFA's ability to issue tax-exempt debt is also limited by the federal rule (commonly known as the 10-year rule) that prohibits refunding of mortgage repayments and prepayments received more than ten years after the date of issuance of the bonds that financed such mortgage loans.

When economic conditions favor it, MHFA issues limited amounts of taxable debt in order to supplement its tax-exempt authority and for lending under programs where federal restrictions are inconsistent with the program requirements. MHFA is increasingly issuing variable-rate debt to provide below-market, fixed-rate mortgages for homeownership. Generally, interest-rate swaps are purchased to hedge against potential loss stemming from the difference between variable-rate liabilities and related fixed-rate assets. (See Interest Rate Swaps under the notes to the financial statements for further discussion of interest-rate swaps and their risks.) Board policy governs the process MHFA follows to issue and manage debt and state statute limits MHFA's outstanding debt to $3.0 billion.

Both Standard and Poor's Ratings Services and Moody's Investors Service continue to affirm general obligation ratings for MHFA of AA+ and Aa1 respectively. MHFA's bond ratings are separate from, and are not directly dependent on, ratings on debt issued by the State of Minnesota. In addition to ongoing reporting to and communications with the bond rating services, periodically MHFA prepares a comprehensive study of the creditworthiness and financial strength of its funds (excluding the appropriated funds). Information obtained from the analysis is presented to the bond rating services and is used by MHFA staff to make decisions about management of assets and debt. (See Risk Based Capital Study.)

MHFA continually investigates and utilizes available debt management techniques to achieve its goals of reducing interest expense and efficiently utilizing its bonding authority. During the year, MHFA completed the issuance/remarketing of 25 series of bonds aggregating to $799 million. This is compared to the combined issuance and remarketing of 26 series totaling $761 million the previous year. In recent years, MHFA has retired high rate debt when it becomes optionally

Significant Long-term Debt Activity (continued)

redeemable and resources were available. Bonds are issued as capital is needed for program purposes, as opportunities for economic refundings occur, and for preservation of bonding authority.

A total of $625 million in principal payments and $75 million of interest payments were made during the year. Of the total principal payments, $363 million was retired prior to the scheduled maturity date using a combination of optional and special redemption provisions.

Significant Topics Which Affect Financial Condition and/or Operations

Legislative Actions

In a special session, the 2005 Minnesota Legislature adopted a biennial budget for FY 2006-2007 that appropriates monies to MHFA at a level nearly identical to the previous biennium. $700,000 more or about 1% increase to the base was appropriated for this biennium as compared to the previous biennium. The State faced another budget deficit, although considerably smaller than the previous biennium. State appropriations are used for specific programs and are not available to pay for MHFA operations or debt service. Changes in state and federal laws, governing administration, funding objectives, housing policy, and fiscal policy pose a potential risk to MHFA's attainment of mission and financial objectives.

Additional Information

Questions and inquiries may be directed to either Mr. Mike LeVasseur or Ms. Sharon Spahn Bjostad at Minnesota Housing Finance Agency, 400 Sibley Street, Suite 300, St. Paul, MN 55101 (651-296-7608 or 800-657-3769 or if T.T.Y. 651-297-2361).

MINNESOTA HOUSING FINANCE AGENCY
Agency-wide Financial Statements
Statement of Net Assets (in thousands)
June 30, 2005 (with comparative totals for June 30, 2004)

		2005 Agency-wide Total	2004 Agency-wide Total
Assets	Cash and cash equivalents	$1,067,625	$ 950,429
	Investment securities	322,145	385,083
	Loans receivable, net	1,542,662	1,413,897
	Interest receivable on loans	7,523	7,395
	Interest receivable on investments	3,628	3,939
	Mortgage insurance claims receivable	922	763
	Real estate owned	905	1,593
	Capital assets, net	2,764	1,774
	Other assets	2,002	3,122
	Total assets	$2,950,176	$2,767,995
Liabilities	Bonds payable, net	$2,016,086	$1,844,589
	Interest payable	35,959	36,283
	Accounts payable and other liabilities	17,319	17,872
	Funds held for others	80,457	88,163
	Total liabilities	2,149,821	1,986,907
	Commitments and contingencies		
Net Assets	Restricted by bond resolution	400,831	387,747
	Restricted by covenant	293,597	277,457
	Restricted by law	103,163	114,110
	Invested in capital assets	2,764	1,774
	Total net assets	800,355	781,088
	Total liabilities and net assets	$2,950,176	$2,767,995

See accompanying notes to financial statements.

MINNESOTA HOUSING FINANCE AGENCY
Agency-wide Financial Statements
Statement of Activities (in thousands)
Year ended June 30, 2005 (with comparative totals for the year ended June 30, 2004)

		2005 Agency-wide Total	2004 Agency-wide Total
Revenues			
	Interest earned on loans	$ 90,344	$ 95,338
	Interest earned on investments	36,983	39,093
	Appropriations received	195,611	189,913
	Administrative reimbursement	775	686
	Fees earned and other income	10,155	9,658
	Unrealized gains (losses) on securities	2,330	(9,625)
	Total revenues	336,198	325,063
Expenses	Interest	79,863	89,514
	Loan administration and trustee fees	5,297	5,339
	Salaries and benefits	13,693	13,131
	Other general operating	7,149	7,179
	Appropriations disbursed	173,842	180,098
	Reduction in carrying value of certain low interest rate deferred loans	35,815	46,467
	Provision for loan losses	1,272	2,427
	Total expenses	316,931	344,155
	Revenues over (under) expenses	19,267	(19,092)
	Change in net assets	19,267	(19,092)
Net Assets	Total net assets, beginning of year	781,088	800,180
	Total net assets, end of year	$800,355	$781,088

See accompanying notes to financial statements.

MINNESOTA HOUSING FINANCE AGENCY
Fund Financial Statements
Statement of Net Assets (in thousands)
Proprietary Funds
June 30, 2005 (with comparative totals for June 30, 2004)

		General Reserve	Bond Funds: Rental Housing	Bond Funds: Residential Housing Finance	Bond Funds: Single Family
Assets	Cash and cash equivalents	$ 4,841	$ 41,485	$ 844,611	$165,952
	Investment securities	110,692	47,840	84,376	14,708
	Loans receivable, net	—	212,420	893,785	407,889
	Interest receivable on loans	—	1,289	3,956	2,278
	Interest receivable on investments	819	1,153	815	516
	Mortgage insurance claims receivable	—	—	485	437
	Real estate owned	—	—	289	616
	Capital assets, net	2,764	—	—	—
	Other assets	1,228	3	25	—
	Total assets	$120,344	$304,190	$1,828,342	$592,396
Liabilities	Bonds payable, net	$ —	$201,200	$1,312,647	$502,239
	Interest payable	—	3,846	18,334	13,779
	Accounts payable and other liabilities	3,580	1,063	4,012	7,152
	Interfund payable (receivable)	3,589	21,005	(24,541)	547
	Funds held for others	79,628	—	—	—
	Total liabilities	86,797	227,114	1,310,452	523,717
	Commitments and contingencies				
Net Assets	Restricted by bond resolution	—	77,076	255,076	68,679
	Restricted by covenant	30,783	—	262,814	—
	Restricted by law	—	—	—	—
	Invested in capital assets	2,764	—	—	—
	Total net assets	33,547	77,076	517,890	68,679
	Total liabilities and net assets	$120,344	$304,190	$1,828,342	$592,396

See accompanying notes to financial statements.

Appropriated Funds			
State Appropriated	Federal Appropriated	2005 Total	2004 Total
$ 6,648	$ 4,088	$1,067,625	$ 950,429
58,052	6,477	322,145	385,083
28,568	—	1,542,662	1,413,897
—	—	7,523	7,395
236	89	3,628	3,939
—	—	922	763
—	—	905	1,593
—	—	2,764	1,774
—	746	2,002	3,122
$93,504	$11,400	$2,950,176	$2,767,995
$ —	$ —	$2,016,086	$1,844,589
—	—	35,959	36,283
454	1,058	17,319	17,872
(816)	216	—	—
—	829	80,457	88,163
(362)	2,103	2,149,821	1,986,907
—	—	400,831	387,747
—	—	293,597	277,457
93,866	9,297	103,163	114,110
—	—	2,764	1,774
93,866	9,297	800,355	781,088
$93,504	$11,400	$2,950,176	$2,767,995

MINNESOTA HOUSING FINANCE AGENCY
Fund Financial Statements
Statement of Revenues, Expenses and Changes in Net Assets (in thousands)
Proprietary Funds
Year ended June 30, 2005 (with comparative totals for the year ended June 30, 2004)

			Bond Funds		
		General Reserve	Rental Housing	Residential Housing Finance	Single Family
Revenues	Interest earned on loans	$ —	$14,552	$ 44,910	$ 30,811
	Interest earned on investments	730	3,442	21,695	9,202
	Appropriations received	—	—	—	—
	Administrative reimbursement	17,219	—	—	—
	Fees earned and other income	8,092	892	421	—
	Unrealized gains (losses) on securities	(251)	1,449	177	899
	Total revenues	25,790	20,335	67,203	40,912
Expenses	Interest	—	12,836	34,935	32,092
	Loan administration and trustee fees	—	239	3,361	1,658
	Administrative reimbursement	—	1,909	6,050	4,234
	Salaries and benefits	13,693	—	—	—
	Other general operating	5,227	—	897	—
	Appropriations disbursed	—	—	—	—
	Reduction in carrying value of certain low interest rate deferred loans	—	(135)	5,873	—
	Provision for loan losses	—	(521)	1,667	11
	Total expenses	18,920	14,328	52,783	37,995
	Revenues over (under) expenses	6,870	6,007	14,420	2,917
Other changes	Non-operating transfer of assets between funds	(3,438)	998	16,433	(13,993)
	Change in net assets	3,432	7,005	30,853	(11,076)
Net Assets	Total net assets, beginning of year	30,115	70,071	487,037	79,755
	Total net assets, end of year	$33,547	$77,076	$517,890	$ 68,679

See accompanying notes to financial statements.

Appropriated Funds			
State Appropriated	Federal Appropriated	2005 Total	2004 Total
$ 71	$ —	$ 90,344	$ 95,338
1,692	222	36,983	39,093
34,257	161,354	195,611	189,913
—	—	17,219	14,349
750	—	10,155	9,658
5	51	2,330	(9,625)
36,775	161,627	352,642	338,726
—	—	79,863	89,514
39	—	5,297	5,339
4,251	—	16,444	13,663
—	—	13,693	13,131
1,025	—	7,149	7,179
13,347	160,495	173,842	180,098
30,077	—	35,815	46,467
115	—	1,272	2,427
48,854	160,495	333,375	357,818
(12,079)	1,132	19,267	(19,092)
—	—	—	—
(12,079)	1,132	19,267	(19,092)
105,945	8,165	781,088	800,180
$ 93,866	$ 9,297	$800,355	$781,088

MINNESOTA HOUSING FINANCE AGENCY
Fund Financial Statements
Statement of Cash Flows (in thousands)
Proprietary Funds
Year ended June 30, 2005 (with comparative totals for the year ended June 30, 2004)

		General Reserve Account	Bond Funds: Rental Housing	Bond Funds: Residential Housing Finance	Bond Funds: Single Family
Cash flows from operating activities	Principal repayments on loans	$ —	$ 22,977	$ 92,607	$ 113,299
	Investment in loans	—	(6,045)	(363,753)	(436)
	Interest received on loans	—	15,457	44,718	29,654
	Other operating	—	—	(897)	—
	Fees and other income received	8,057	892	451	—
	Salaries, benefits and vendor payments	(18,623)	(214)	(2,603)	(1,575)
	Appropriations received	—	—	—	—
	Appropriations disbursed	—	—	—	—
	Administrative reimbursement from funds	17,324	(1,909)	(6,050)	(4,234)
	Interest transferred to funds held for others	(2,484)	—	—	—
	Deposits into funds held for others	30,445	—	—	—
	Disbursements made from funds held for others	(37,052)	—	—	—
	Interfund transfers and other assets	(1,057)	—	368	(620)
	Net cash provided (used) by operating activities	(3,390)	31,158	(235,159)	136,088
Cash flows from noncapital financing activities	Proceeds from sale of bonds	—	85,290	713,728	—
	Principal repayment on bonds	—	(98,795)	(333,295)	(192,795)
	Interest paid on bonds and notes	—	(11,339)	(27,580)	(36,002)
	Financing costs paid related to bonds issued	—	(3,053)	(2,898)	—
	Interest paid/received between funds	—	(1,635)	1,635	—
	Principal paid/received between funds	—	(218)	218	—
	Premium paid on redemption of bonds	—	—	—	(142)
	Agency contribution to program funds	—	188	13,805	(13,993)
	Transfer of cash between funds	(4,036)	810	3,226	—
	Net cash provided (used) by noncapital financing activities	(4,036)	(28,752)	368,839	(242,932)
Cash flows from investing activities	Investment in real estate owned	—	—	(95)	(533)
	Interest received on investments	3,566	3,539	19,655	7,215
	Proceeds from sale of mortgage insurance claims/real estate owned	—	—	1,558	5,435
	Proceeds from maturity, sale or transfer of investment securities	99,604	14,180	97,912	6,300
	Purchase of investment securities	(95,710)	(21,913)	(38,016)	(7,613)
	Net cash provided (used) by investing activities	7,460	(4,194)	81,014	10,804
	Net increase (decrease) in cash and cash equivalents	34	(1,788)	214,694	(96,040)
Cash and cash equivalents	Beginning of year	4,807	43,273	629,917	261,992
	End of year	$ 4,841	$ 41,485	$ 844,611	$ 165,952

See accompanying notes to financial statements.

Appropriated Funds			
State Appropriated	**Federal Appropriated**	**2005 Total**	**2004 Total**
$ 8,328	$ —	$ 237,211	$ 368,968
(38,206)	—	(408,440)	(356,231)
71	—	89,900	92,078
(1,035)	—	(1,932)	(1,118)
1,000	—	10,400	9,513
(39)	—	(23,054)	(23,619)
34,257	161,831	196,088	189,434
(13,425)	(161,401)	(174,826)	(179,136)
(4,359)	—	772	664
—	(21)	(2,505)	(2,660)
—	1,634	32,079	36,615
—	(2,458)	(39,510)	(36,568)
739	—	(570)	(337)
(12,669)	(415)	(84,387)	97,603
—	—	799,018	764,426
—	—	(624,885)	(765,673)
—	—	(74,921)	(89,538)
—	—	(5,951)	(4,726)
—	—	—	—
—	—	—	—
—	—	(142)	(1,418)
—	—	—	—
—	—	—	—
—	—	93,119	(96,929)
—	—	(628)	(741)
1,558	319	35,852	40,734
—	—	6,993	6,593
86,200	—	304,196	386,841
(74,697)	—	(237,949)	(341,577)
13,061	319	108,464	91,850
392	(96)	117,196	92,524
6,256	4,184	950,429	857,905
$ 6,648	$ 4,088	$1,067,625	$ 950,429

(continued)

MINNESOTA HOUSING FINANCE AGENCY
Fund Financial Statements
Statement of Cash Flows (in thousands)
Proprietary Funds (continued)
Year ended June 30, 2005 (with comparative totals for the year ended June 30, 2004)

Reconciliation of revenue over (under) expenses to net cash provided (used) by operating activities

	General Reserve	Bond Funds: Rental Housing	Bond Funds: Residential Housing Finance	Bond Funds: Single Family
Revenues over (under) expenses	$ 6,870	$ 6,007	$ 14,420	$ 2,917
Adjustments to reconcile revenues over (under) expenses to net cash provided (used) by operating activities:				
Amortization of premiums (discounts) and fees on loans	—	(65)	1,000	(1,524)
Depreciation	555	—	—	—
Realized losses (gains) on sale of securities, net	9	—	(1,193)	—
Unrealized losses (gains) on securities, net	251	(1,449)	(177)	(899)
Provision for loan losses	—	(521)	1,667	11
Reduction in carrying value of certain low interest rate and/or deferred loans	—	(135)	5,873	—
Capitalized interest on loans and real estate owned	—	(67)	(123)	(276)
Interest earned on investments	(739)	(3,438)	(21,548)	(9,706)
Interest expense on bonds and notes	—	12,836	34,935	32,092
Changes in assets and liabilities:				
Decrease (increase) in loans receivable, excluding loans transferred between funds	—	16,932	(271,146)	112,863
Decrease (increase) in interest receivable on loans	—	408	(1,069)	533
Increase in arbitrage rebate liability	—	625	1,046	614
Interest transferred to funds held for others	(2,484)	—	—	—
Increase (decrease) in accounts payable	124	20	791	78
Increase (decrease) in interfund payable, affecting operating activities only	479	—	(119)	(620)
Increase (decrease) in funds held for others	(6,607)	—	—	—
Other	(1,848)	5	484	5
Total	(10,260)	25,151	(249,579)	133,171
Net cash provided (used) by operating activities	$ (3,390)	$31,158	$(235,159)	$136,088

See accompanying notes to financial statements.

Appropriated Funds			
State Appropriated	Federal Appropriated	2005 Total	2004 Total
$(12,079)	$ 1,132	$ 19,267	$(19,092)
—	—	(589)	(3,464)
—	—	555	481
—	—	(1,184)	(2,026)
(5)	(51)	(2,330)	9,625
114	—	1,271	2,427
30,077	—	35,815	46,467
—	—	(466)	(537)
(1,692)	(222)	(37,345)	(38,320)
—	—	79,863	89,514
(29,878)	—	(171,229)	12,737
—	—	(128)	637
—	—	2,285	1,358
—	(21)	(2,505)	(2,660)
(88)	(908)	17	1,476
632	2	374	—
—	(824)	(7,431)	47
250	477	(627)	(1,067)
(590)	(1,547)	(103,654)	116,695
$(12,669)	$ (415)	$ (84,387)	$ 97,603

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2005

Nature of Business and Fund Structure

The Minnesota Housing Finance Agency (the Agency or MHFA) was created in 1971 by an Act of the Minnesota legislature. The Agency was established to facilitate the construction and rehabilitation of housing in Minnesota for families of low- and moderate-income by providing for mortgage loans, development loans, and technical assistance to qualified housing sponsors to be used for construction and rehabilitation of housing. The Agency, as a special purpose agency engaged in business-type activities, is a component unit of the State of Minnesota, and is reflected as a proprietary fund in the state's comprehensive annual financial report. The Agency receives appropriations from the state legislature, substantially all of which are used to make loans or grants under specified non-bond-financed programs. The Agency also receives funds from the federal government or through other entities for similar purposes.

The Agency is authorized to issue bonds and other obligations to fulfill its corporate purposes up to a total outstanding amount of $3.0 billion. Amounts so issued shall not be deemed to constitute a debt of the State of Minnesota or any political subdivision thereof.

The following describes the funds maintained by the Agency, which are included in this report, all of which conform with the authorizing legislation and bond resolutions:

General Reserve

General Reserve was established in fulfillment of the pledge by the Agency of its full faith and credit in its bond resolutions. Administrative costs of the Agency and multifamily development escrow receipts and related disbursements are recorded in this account. The net assets of General Reserve are available to support the following funds which are further described below: Rental Housing, Residential Housing Finance and Single Family.

Rental Housing

Bond proceeds for the multifamily housing programs are maintained under the Rental Housing bond resolution. Loans are secured by first mortgages on real property.

Residential Housing Finance

Included within Residential Housing Finance are the bonds issued and outstanding under the Residential Housing Finance Bonds resolution, the bond resolution restricted Home Improvement, Homeownership and Multifamily Endowment Funds, and the Alternative Loan Fund, which is restricted by a covenant with bondholders.

Bonds

The series bonds outstanding were issued to fund purchases of single family first mortgage loans and home improvement subordinated loans. Assets of the series bonds issued and outstanding under the resolution and of the three endowment funds described below are pledged to the repayment of Residential Housing Finance bondholders.

Home Improvement Endowment Fund

This fund is a principal source of funding for home improvement loans. Home improvement loans in excess of $10,000 are generally secured by a second mortgage.

Homeownership Endowment Fund

This fund is a source of funding for entry cost housing assistance programs for first-time homebuyers, below-market interim financing during construction and/or rehabilitation of single family housing and to warehouse loans.

Nature of Business and Fund Structure (continued)

Multifamily Endowment Fund

This fund is the principal source of funding for innovative multifamily programs that are not candidates for bond financing such as a tenant services program, a contingency fund, non-profit capacity building, flexible financing, incentive loans and a program for leveraging investments in neighborhoods and communities.

Alternative Loan Fund

An Alternative Loan Fund has been established in Residential Housing Finance to deposit funds in either the Housing Investment Fund or Housing Affordability Fund, which were otherwise available to be transferred to General Reserve. The Alternative Loan Fund is not pledged to the payment of the Residential Housing Finance bonds, or any other specific debt obligation of the Agency, and is generally available to pay any debt obligation of the Agency.

The Alternative Loan Fund, Housing Investment Fund, is currently invested in investment grade loans, as defined by the Agency, and may also be used to advance funds to retire high rate debt and to warehouse loans.

The Alternative Loan Fund, Housing Affordability Fund, includes a reserve consisting of cash and investment grade housing loans, as defined by the Agency, for future Agency administrative costs and other funds that may be used as a source of funding for bond sale contributions, multifamily first and subordinated mortgage loans including zero-percent deferred loans, and other below market-rate loans with higher than ordinary risk factors. It may also be used to advance funds to retire high rate debt and to warehouse loans.

Single Family

Bonds issued for homeownership programs have been issued under Single Family and Residential Housing Finance. The Agency generally expects to issue future bonds for homeownership programs under Residential Housing Finance. Agency contributions to bonds issued under Residential Housing Finance may be made from Single Family. Loans are secured by first mortgages on real property.

Each respective bond resolution described above prescribes the accounting for bond proceeds, debt service requirements of the bond indebtedness, permitted investments, and eligible loans to be financed from the bond proceeds.

State Appropriated

The State Appropriated fund was established to account for funds received from the state legislature which are to be used for programs for low-to moderate-income persons and families in the form of low-interest loans, no-interest deferred loans, innovative development and other housing-related program costs. The net assets of the State Appropriated fund are not available to support the bondholders or creditors of the Agency.

Federal Appropriated

The Federal Appropriated fund was established to account for funds received from the federal government which are to be used for programs for low-to moderate-income persons and families in the form of no-interest deferred loans, grants, support to other non-profit housing organizations and other housing-related program costs. The net assets of the Federal Appropriated fund are not available to support the bondholders or creditors of the Agency.

Summary of Significant Accounting Policies

The following is a summary of the more significant accounting policies.

Basis of Accounting

The Agency's financial statements have been prepared on the basis of the proprietary fund concept which pertains to financial activities that operate in a manner similar to private business enterprises and are financed through fees and charges assessed primarily to the users of the services.

Generally Accepted Accounting Principles

The Agency has adopted Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*. The Agency has applied all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements, Accounting Principles Board (APB) opinions, and Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Since the business of the Agency is essentially that of a financial institution having a business cycle greater than one year, the statement of net assets is not presented in a classified format.

New Accounting Pronouncements

On March 27, 2003 GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures, which amends GASB Statement No. 3, Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase*, to require disclosure of information covering four principal areas:

- Investment credit risk disclosures, including credit quality information issued by rating agencies.
- Interest rate disclosures that include investment maturity information, such as weighted average maturities or segmented time distribution.
- Interest rate sensitivity for investments highly sensitive to changes in interest rates (e.g., inverse floaters, enhanced variable-rate investments, and certain asset-backed securities).
- Foreign exchange exposures that would indicate the foreign investment's denomination.

GASB Statement No. 40 is effective for the Agency's fiscal year ending June 30, 2005. This GASB Statement was adopted by the Agency for the fiscal year ended June 30, 2005 and did not affect the Agency's net assets.

In November 2003, the GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. GASB Statement No. 42 requires governments to evaluate prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Under GASB Statement No. 42, a capital asset generally should be considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstance is outside the normal life cycle of the capital asset. Additionally, GASB Statement No. 42 requires impaired capital assets that are idle to be disclosed, and those that will no longer be used by the government to be reported at the lower of carrying value or fair value. GASB Statement No. 42 also requires that an insurance recovery associated with events or changes in circumstances resulting in impairment of a capital asset to be netted with the impairment loss, if any. The provisions of GASB Statement No. 42 are effective for the Agency's fiscal year ending June 30, 2006. The adoption of GASB Statement No. 42 in fiscal 2006 is not expected to have a significant effect on the Agency's financial statements.

In June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities

Summary of Significant Accounting Policies (continued)

(assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. The approach followed in this Statement generally is consistent with the approach adopted in Statement No. 27, Accounting for Pensions by State and Local Governmental Employers, with modifications to reflect differences between pension benefits and OPEB. Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, addresses financial statement and disclosure requirements for reporting by administrators or trustees of OPEB plan assets or by employers or sponsors that include OPEB plan assets as trust or agency funds in their financial reports. GASB Statement No. 45 is effective for the Agency's fiscal year ending June 30, 2007. The Agency has not yet determined the effect that the adoption of this Statement will have on its financial statements.

In June 2004, the GASB issued Statement No. 46, *Net Assets Restricted by Enabling Legislation—an amendment of GASB Statement No. 34*. This statement requires that limitations on the use of net assets imposed by enabling legislation be reported as restricted net assets. This Statement also specifies the accounting and financial reporting requirements if new enabling legislation replaces existing enabling legislation or if legal enforceability is reevaluated. Finally, this Statement requires governments to disclose the portion of total net assets that is restricted by enabling legislation. The requirements of this Statement are effective for the Agency's fiscal year ending June 30, 2006. The Agency has not yet determined the effect that the adoption of this Statement will have on its financial statements.

In June 2005, the GASB issued Statement No. 47, *Accounting for Termination Benefits*. This statement stipulates the basis for recognizing liability and expense for voluntary and involuntary employee termination benefits. The Statement is effective for the Agency's fiscal year ending June 30, 2006. The Agency has not yet determined the effect that the adoption of this Statement will have on its financial statements.

Cash and Cash Equivalents

Cash equivalents may include commercial paper, money market funds, repurchase agreements, investment agreements and any other investments, primarily US treasuries and agencies, which have 90 or less days remaining to maturity at the time of purchase.

Investment Securities

The Agency carries all investment securities at fair market value. Unrealized gains and losses on investment securities resulting from changes in market valuation are recorded as revenue. However, unrealized gains and losses on investments of multifamily development escrow funds resulting from changes in market valuation are recorded as funds held for others.

Loans Receivable, Net

Loans receivable are carried at their unpaid principal balances, net of an allowance for loan losses, unamortized premiums or discounts and fees.

The allowances for loan losses are established based on management's evaluation of the loan portfolio.

Generally, the Agency provides an allowance for loan losses for multifamily loans after considering the specific known risks: adequacy of collateral and projected cash flows; past experience; amount of federal or state rent subsidies, if any; the status and amount of past due payments, if any; the amount of deferred maintenance, if any; and current economic conditions.

For homeownership and home improvement loans, the Agency establishes varying amounts of reserves depending upon the number of delinquent loans, the number of days delinquent and the type of insurance coverage in force: Federal Housing Administration (FHA) insurance, Rural Development (RD) guarantee, Veterans Administration (VA) guarantee, private mortgage insurance and pool or self-insurance.

Summary of Significant Accounting Policies (continued)

Actual losses incurred are charged against the allowance for loan losses; recoveries are added to the allowance for loan losses. Management believes the allowances for loan losses adequately reserve for probable losses inherent in the loan portfolios as of June 30, 2005.

Premiums, discounts or fees resulting from the purchase or origination of mortgage loans at other than face value are amortized over the life of the loans using the effective interest method. Prepayments of mortgages are taken into account in the calculation of the amortization. The amount amortized is included in interest earned on loans.

Interest Receivable on Loans

The Agency accrues interest on its amortizing loans until they become 90 days or more delinquent in the case of multifamily loans, or until they become 'real estate owned' (described below) for all other loans.

Mortgage Insurance Claims Receivable

Mortgages that are FHA insured or VA guaranteed, and for which insurance claims have been filed, are included in this category.

Real Estate Owned

Real estate acquired through foreclosure is recorded at the lower of the investment in the loan, or estimated fair market value less estimated selling costs. These properties may be RD guaranteed, uninsured or have private mortgage insurance.

Bonds Payable, Net

Bonds payable are carried at their unpaid principal balances, net of unamortized premiums, discounts and deferred financing costs. Premiums, discounts and deferred financing costs are amortized using the effective interest method in the Single Family and Residential Housing Finance funds. In the Rental Housing fund, deferred financing costs are amortized using the bonds outstanding method due to the unpredictable nature of prepayments of multifamily loans.

Interfund Payable (Receivable)

Interfund payable (receivable) primarily reflects pending transfers of cash and assets between funds. The more significant activities that flow through this fund may include funds advanced for purposes of optionally redeeming bonds when economically advantageous, funds advanced for loan warehousing, administrative fees receivable and payable between funds, and certain mortgage payments received but not yet transferred to their respective funds.

Funds Held for Others

Funds held for others are primarily escrow amounts held by the Agency on behalf of multifamily housing developments where the Agency holds the first mortgages. These amounts are held under the terms of the related loans and federal regulations regarding subsidized housing. Investment income relating to these funds is credited directly to the escrow funds; it is not included in the investment income of General Reserve. Also included in funds held for others are unrealized gains and losses on investments of the multifamily housing development escrow funds and funds pending disbursement to HUD, such as McKinney Act savings and Section 8 payments. In addition, investment income on unspent Section 8 funds is credited directly to Funds Held For Others and not included in the investment income of Federal Appropriated.

Restricted by Bond Resolution

Restricted by Bond Resolution Net Assets represents those assets restricted within the respective bond resolution due to the specific provisions of the bond resolutions.

Summary of Significant Accounting Policies (continued)

Restricted by Covenant

Restricted by Covenant Net Assets represents those assets in General Reserve and those assets that were otherwise available to be transferred to General Reserve. Under the Agency's bond resolutions, the Agency covenants that it will use the assets in General Reserve only for the administration and financing of programs in accordance with the policy and purpose of the MHFA enabling legislation, including reserves for the payment of bonds and notes and of loans made from the proceeds thereof, and shall accumulate and maintain therein such balance of funds and investments as will be sufficient for the purpose. The Agency's Board is responsible for establishing the investment guidelines for these funds.

Restricted by Law

Undisbursed, recognized federal and state appropriations are classified as restricted by law.

Invested in Capital Assets

This represents the balance of capital assets, net of depreciation. No related debt exists.

Agency-wide Total

The Agency-wide Total columns reflect the totals of the similar accounts of the various funds. Since the assets of certain of the funds are restricted by either the related bond resolutions or legislation, the totaling of the accounts, including assets therein, is for convenience only and does not indicate that the combined assets are available in any manner other than that provided for in either the bond resolutions or the legislation for the separate funds or groups of funds. The totals for fiscal year 2004 are for comparative purposes only.

Administrative Reimbursement

The largest source of funding for the Agency's administrative operations is a monthly transfer from each of the bond funds to General Reserve based on adjusted assets. Adjusted assets are defined as total assets plus the reserve for loan loss plus unearned discounts on loans minus the proceeds of short-term debt minus premiums on loans.

For programs funded by state appropriations, the Agency recovers the cost of administering the programs to the extent of interest earnings on the appropriations.

For programs funded by federal appropriations, the Agency recovers the cost of administering programs through an approved federal indirect cost recovery rate. Certain other direct costs are also recovered. Total direct and indirect costs recovered from the federal government in the amount of $775,000 are reflected as administrative reimbursement revenues in the General Reserve.

Administrative reimbursements in the amount of $16,444,000 between the Agency's funds have been eliminated from the respective administrative reimbursement revenues and expenses line items for purposes of presentation in the Agency-wide statement of activities.

Fees Earned and Other Income

Fees earned and other income consists mainly of fees related to the financing and administration of Section 8 properties, including administration of a HUD-owned Section 8 portfolio, fees in connection with operating the Low Income Housing Tax Credits program, annual fees related to certain multifamily housing development loans and private contributions restricted to use in the Agency's Homeownership Education, Counseling and Training Program. Fees earned and other income is recorded as it is earned.

Summary of Significant Accounting Policies (continued)

Reduction in Carrying Value of Certain Low Interest Rate Deferred Loans

The carrying value of certain Housing Affordability Fund loans, Endowment Fund loans and State Appropriated loans which are originated at interest rates ranging from 0%-5%, and for which repayment is deferred for up to 30 years, is written down to zero at the time of origination by providing for a Reduction in Carrying Value of Certain Low Interest Rate Deferred Loans because of the nature of these loans and the risk associated with them. Certain of these loans may be forgiven at maturity.

Other Changes

The Agency utilizes the Other Changes section of the Statement of Revenues, Expenses and Changes in Net Assets to describe various transfers between funds.

Non-operating Transfer of Assets Between Funds

Non-operating transfers occur as a result of bond sale contributions related to new debt issues, the annual transfer of assets to maintain the Housing Endowment Fund requirement, periodic transfers to bond funds to fulfill bond resolution requirements and periodic transfers from the bond funds of assets in excess of the bond resolution requirements.

Non-Cash Activities

Transfers from loans receivable to mortgage insurance claims receivable and real estate owned for fiscal year 2005 were $1.92 million and $3.60 million, for Residential Housing Finance and Single Family, respectively.

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Related Party Transactions

The Alternative Loan Fund in Residential Housing Finance continues to reflect outstanding advances made in fiscal year 1997 for the purpose of optionally redeeming bonds in Rental Housing. The advances were made in order to take advantage of economically favorable conditions for redeeming the bonds. The advances continue to be repaid according to the original debt repayment schedule. The advances are recorded in Interfund Payable (Receivable).

Income Taxes

The Agency, as a component unit of the State of Minnesota, is exempt from federal and state income taxes. Accordingly, no provision for income taxes is necessary.

Rebateable Arbitrage

Arbitrage earnings that are owed to the United States Treasury are recorded in Accounts Payable and based on estimated calculations performed by an independent valuation specialist on an ongoing basis. Also included in this category is yield compliance liability owed to the United States Treasury.

Cash, Cash Equivalents and Investment Securities

Permitted Agency investments include government obligations, commercial paper, repurchase agreements, money market funds, guaranteed investment contracts (i.e., investment agreements), corporate obligations, Minnesota municipal bonds and other investments consistent with requirements of safety and liquidity that do not violate applicable provisions of the bond resolutions, state law or Board policy.

Cash and cash equivalents are stated at cost which approximates market and are composed of the following at June 30, 2005 (in thousands):

Cash and Cash Equivalents

Funds	Deposits	Money Market Fund	Investment Agreements	Combined Totals
General Reserve	$ 1,379	$ 3,462	$ —	$ 4,841
Rental Housing	697	7,511	33,277	41,485
Residential Housing Finance	7,686	77,084	759,841	844,611
Single Family	5,288	9,212	151,452	165,952
State Appropriated	—	6,648	—	6,648
Federal Appropriated	969	3,119	—	4,088
Agency-wide Totals	$16,019	$107,036	$944,570	$1,067,625

Deposits may consist of commercial paper for General Reserve, State Appropriated and Federal Appropriated and cash awaiting investment for the remainder of the funds. The commercial paper is held by the Agency's agent. Cash awaiting investment consists of interest earned on investments received too late on the last day of the fiscal year to be invested and loan servicer deposits in transit.

Generally, investment agreements are uncollateralized, interest-bearing contracts with financial intermediaries with variable liquidity features, which require a one-day to two-week notice for deposits and/or withdrawals, and are invested in accordance with the restrictions specified in the various bond funds. As of June 30, 2005, all the investment agreement providers have a Standard & Poor's long-term credit rating of "AA-" or higher and a Moody's long-term credit rating of "Aa3" or higher. The individual investment agreements are unrated. Substantially all of the agreements contain "termination" clauses so that the Agency may withdraw funds early if credit ratings deteriorate below specified levels and collateral is not provided.

Investment securities are recorded at fair market value and are composed of the following at June 30, 2005 (in thousands):

Investment Securities

Funds	Fair Market Value		
	US Treasuries, US Agencies and Municipals, at Amortized Cost	Unrealized Appreciation (Depreciation) in Fair Market Value	Estimated Market Value
General Reserve	$111,122	$ (430)	$110,692
Rental Housing	46,163	1,677	47,840
Residential Housing Finance	83,114	1,262	84,376
Single Family	13,220	1,488	14,708
State Appropriated	58,261	(209)	58,052
Federal Appropriated	6,444	33	6,477
Agency-wide Totals	$318,324	$3,821	$322,145

Cash, Cash Equivalents and Investment Securities (continued)

US treasury, US agency and municipal securities in General Reserve, State Appropriated and Federal Appropriated are held by the Agency's agent in the name of the State of Minnesota. US treasury, US agency and municipal securities in the remainder of the funds are held by the Agency's trustee in the Agency's name. US agency investments have a Standard & Poor's rating of AAA and a Moody's rating of Aaa. The municipal investments have a Standard & Poor's rating of AAA and a Moody's rating of Aaa.

Examining the maturities of the Agency's debt securities can reveal information about interest rate risk. Cash, Cash Equivalents and Investment Securities (excluding unrealized appreciation of $3.821 million), along with maturities of the Agency's debt securities, as of June 30, 2005, consist of the following (in thousands):

Cash, Cash Equivalents and Investment Securities

		Maturities (In Years)				
Type	Par Value	Less than 0.5	0.5 - 1	1 - 2	2 - 10	10 or More
Deposits	$ 15,050	$ 15,050	$ —	$ —	$ —	$ —
Money market fund	107,036	107,036	—	—	—	—
Investment agreements	944,570	944,570	—	—	—	—
Commercial Paper	969	969	—	—	—	—
US Agencies	301,656	76,200	66,500	110,030	32,305	16,621
US Treasuries	18,385	—	—	—	—	18,385
Municipals	2,000	—	2,000	—	—	—
Agency-wide Totals	$1,389,666	$1,143,825	$68,500	$110,030	$32,305	$35,006

Investments in any one issuer that represent 5 percent or more of total investments as of June 30, 2005 are as follows (in thousands):

Investment Issuer	Amount
IXIS Funding Corporation, investment agreements	$327,240
Bayerische Landesbank, investment agreements	268,214
FSA Capital Management Services, investment agreements	155,615

The Agency maintains certain deposits and investments throughout the year that are subject to custodial credit risk. As of June 30, 2005, those amounts subject to this risk consists of the following:

	Amount
Deposits not covered by depository insurance and uncollateralized (including $107,036 in a money market fund)	$122,086
Investment securities (which excludes investment agreements) uninsured, uncollateralized and not held in the Agency's name	146,924
Agency-wide Total	$269,010

Net realized gain on sale of investment securities of $1.184 million is included in interest earned on investments.

Certain balances are required to be maintained under the various bond resolutions. These balances represent debt service and insurance reserves. The required balances at June 30, 2005 are as follows (in thousands):

Funds	Amount
Rental Housing	$20,753
Residential Housing Finance	19,377
Single Family	23,803
Totals	$63,933

Loans Receivable, Net

Loans receivable, net at June 30, 2005 consist of (in thousands):

Funds	Outstanding Principal	Allowance for Loan Losses	Unamortized Discounts and Fees	Loans Receivable, Net
General Reserve	$ —	$ —	$ —	$ —
Rental Housing	220,946	(7,350)	(1,176)	212,420
Residential Housing Finance	905,182	(10,242)	(1,155)	893,785
Single Family	413,053	(103)	(5,061)	407,889
State Appropriated	29,603	(1,035)	—	28,568
Federal Appropriated	—	—	—	—
Agency-wide Totals	$1,568,784	$(18,730)	$(7,392)	$1,542,662

Substantially all loans in the table above are secured by first or second mortgages on the real property. Mortgage loans in the Single Family fund and homeownership first mortgage loans in the Residential Housing Finance fund (see following table) are largely privately insured or insured by the FHA, VA, or RD. Insurance minimizes, but does not completely eliminate, loan losses. Mortgage loans in the Single Family fund are also protected by an insurance reserve fund.

In addition to the loans in the table above, certain loans are originated at interest rates ranging from 0%-5% and repayment is deferred for up to 30 years. These loans are generally in either a second or lower mortgage position or may be unsecured. Given the nature of these loans and the risk associated with them, at the time of origination they are fully reserved resulting in a net carrying value of zero. During fiscal year ended June 30, 2005, the amount of these loans originated was $5.355 million in the Housing Affordability Fund, $4.012 million in the Homeownership Endowment Fund, $1.355 million in the Multifamily Endowment Fund and $34.478 million in State Appropriated. These loans are excluded from the tables above and below, as they are fully reserved.

Loans receivable, net in Residential Housing Finance at June 30, 2005 consist of a variety of loans as follows (in thousands):

Description	Net Outstanding Amount
Home Improvement Endowment Fund:	
Home Improvement loans, generally secured by a second mortgage	$101,657
Homeownership Endowment Fund:	
Homeownership, first mortgage loans	6,494
Other homeownership loans, generally secured by a second mortgage	10,285
Multifamily Endowment Fund:	
Multifamily, subordinated mortgage loans reserved at 100%	—
Residential Housing Finance Bonds:	
Homeownership, first mortgage loans	573,402
Alternative Loan Fund, Housing Investment Fund (Pool 2):	
Homeownership, first mortgage loans	27,479
Multifamily, first mortgage loans	13,548
Alternative Loan Fund, Housing Affordability Fund (Pool 3):	
Multifamily, first mortgage loans	124,913
Multifamily, subordinated mortgage loans reserved at 100%	—
Homeownership, first mortgage loans	36,007
Residential Housing Finance Totals	$893,785

By statute, the Agency is limited to financing real estate located within the State of Minnesota. Collectibility depends on local economic conditions.

Other Assets

Other assets, including receivables, at June 30, 2005 consist of the following (in thousands):

Funds	Receivables Due from the Federal Government	Other Assets and Receivables	Total
General Reserve	$1,170	$58	$1,228
Rental Housing	—	3	3
Residential Housing Finance	—	25	25
Single Family	—	—	—
State Appropriated	—	—	—
Federal Appropriated	746	—	746
Agency-wide Totals	$1,916	$86	$2,002

Bonds Payable, Net

Bonds payable, net at June 30, 2005 are as follows (in thousands):

Funds	Outstanding Principal	Unamortized Deferred Finance and Issuance Costs	Net Unamortized Premium	Unamortized Deferred Gain	Bonds Payable, Net
Rental Housing	$ 208,180	$ (2,697)	$ —	$(4,283)	$ 201,200
Residential Housing Finance	1,314,705	(5,750)	3,692	—	1,312,647
Single Family	507,615	(5,376)	—	—	502,239
Totals	$2,030,500	$(13,823)	$3,692	$(4,283)	$2,016,086

Summary of bond activity from June 30, 2004 to June 30, 2005 (in thousands):

Funds	June 20, 2004 Bonds Outstanding	Par Issued	Par Repaid	June 30, 2005 Bonds Outstanding
Rental Housing	$ 221,685	$ 85,290	$ 98,795	$ 208,180
Single Family	700,410	—	192,795	507,615
Residential Housing Finance	935,210	712,790	333,295	1,314,705
Totals	$1,857,305	$798,080	$624,885	$2,030,500

Outstanding principal of bonds payable at June 30, 2005 are as follows (in thousands):

Series	Interest rate	Maturity	Original Amount	Outstanding Amount
Rental Housing Bonds				
1995 Series C-2	5.10% to 5.95%	2005-2015	$ 38,210	$14,120
1995 Series D	5.25% to 6.00%	2005-2022	234,590	17,035
1996 Series A	5.30% to 6.10%	2005-2027	2,820	2,525
1997 Series A	4.95% to 5.875%	2005-2028	4,750	4,275
1998 Series A	5.375%	2028	5,505	5,505
1998 Series B	6.60%	2019	4,180	3,420
1998 Series C	4.40% to 5.20%	2005-2029	2,865	2,610
1999 Series A	4.15% to 5.10%	2005-2024	4,275	3,755
1999 Series B	5.00% to 6.15%	2005-2025	3,160	2,660
2000 Series A	5.35% to 6.15%	2008-2030	9,290	7,745
2000 Series B	5.90%	2031	5,150	4,880
2001 Series A	4.50% to 5.35%	2012-2033	4,800	4,650
2002 Series A	2.00% to 4.05%	2005-2014	27,630	23,500
2003 Series A	4.55% to 4.95%	2018-2045	12,770	12,770

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
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Bonds Payable, Net (continued)

Series	Interest rate	Maturity	Original Amount	Outstanding Amount
Rental Housing Bonds (continued)				
2003 Series B	4.15% to 5.08%	2013-2031	$ 1,945	$ 1,915
2003 Series C-1	4.35% to 5.20%	2013-2034	2,095	2,080
2003 Series C-2	1.80%	2005	100	100
2004 Series A	1.60% to 5.00%	2005-2035	9,345	9,345
2004 Series B	4.00% to 4.85%	2014-2035	3,215	3,215
2004 Series C	1.75% to 4.40%	2005-2022	80,000	80,000
2005 Series A-1	4.25% to 4.85%	2014-2035	1,725	1,725
2005 Series A-2	2.60%	2006	350	350
			458,770	208,180
Residential Housing Finance Bonds				
1995 Series A	5.05% to 5.85%	2005-2017	53,645	14,995
2002 Series A	4.75% to 5.30%	2012-2019	14,035	5,540
2002 Series B	3.85% to 5.65%	2005-2033	59,650	26,220
2002 Series A-1	4.20% to 4.90%	2012-2019	6,860	6,860
2002 Series B-1	2.80% to 5.35%	2005-2033	25,760	24,030
2002 Series E	4.30% to 5.00%	2013-2020	12,805	11,520
2002 Series F	2.85% to 5.40%	2005-2032	52,195	44,675
2002 Series H	3.88% to 4.93%	2007-2012	20,000	20,000
2003 Series A	1.40% to 4.25%	2005-2034	40,000	39,045
2003 Series B	Variable	2033	25,000	25,000
2003 Series D	1.40%	2005	36,240	36,240
2003 Series E	1.50%	2005	64,975	64,975
2003 Series H	1.62%	2005	38,610	19,445
2003 Series I	1.85% to 5.25%	2005-2035	25,000	24,280
2003 Series J	Variable	2033	25,000	24,860
2003 Series K-1	2.25%	2006	24,150	24,150
2003 Series K-2	2.25%	2006	20,045	20,045
2003 Series L-1	2.35%	2006	21,600	21,600
2003 Series L-1	2.35%	2006	111,515	111,515
2004 Series A	3.20% to 4.25%	2011-2018	22,480	21,575
2004 Series B	1.55% to 5.00%	2005-2033	94,620	89,590
2004 Series C	4.70%	2035	14,970	14,365
2004 Series E-1	4.10% to 4.60%	2012-2016	5,110	5,110
2004 Series E-2	4.40% to 4.60%	2014-2016	6,475	6,475
2004 Series F-1	2.45% to 4.50%	2006-2012	4,600	4,600
2004 Series F-2	3.20% to 5.25%	2007-2034	36,160	36,160
2004 Series G	Variable	2032	50,000	50,000
2004 Series H	1.62%	2005	41,510	41,510
2004 Series I	2.20%	2005	740	740
2004 Series J	2.30%	2005	56,540	56,540
2004 Series K	2.30%	2005	63,045	63,045
2005 Series A	2.40% to 4.125%	2007-2018	14,575	14,575
2005 Series B	4.75% to 5.00%	2030-2035	20,425	20,425
2005 Series C	Variable	2035	25,000	25,000
2005 Series D	2.90%	2006	54,010	54,010
2005 Series E	2.95%	2006	116,005	116,005
2005 Series F	2.95%	2006	29,985	29,985
2005 Series G	4.25% to 4.30%	2017-2018	8,950	8,950

Bonds Payable, Net (continued)

Series	Interest rate	Maturity	Original Amount	Outstanding Amount
Residential Housing Finance Bonds (continued)				
2005 Series H	3.00% to 5.00%	2007-2036	$ 51,050	$ 51,050
2005 Series I	Variable	2036	40,000	40,000
			1,433,335	1,314,705
Single Family Mortgage Bonds				
1992 Series C-2	6.15%	2023	12,185	2,235
1992 Series D-2	5.55% to 5.95%	2005-2017	26,740	8,020
1992 Series H	6.50%	2026	23,410	18,390
1992 Series I	5.95% to 6.25%	2005-2015	16,365	8,310
1993 Series D	6.40%	2027	17,685	3,410
1993 Series F	6.25%	2020	9,500	1,580
1994 Series D	5.00%	2005	91,660	5,245
1994 Series E	4.80% to 5.90%	2005-2025	31,820	13,735
1994 Series T	5.40% to 6.125%	2005-2017	16,420	2,135
1995 Series B	6.40% to 6.55%	2017-2027	35,815	9,070
1995 Series D	6.40% to 6.45%	2015-2025	40,160	9,545
1995 Series G	7.25% to 8.05%	2005-2012	8,310	935
1995 Series H	6.40%	2027	19,240	3,700
1995 Series I	6.35%	2017-2018	7,450	1,435
1995 Series J	5.10% to 6.10%	2005-2019	16,065	2,920
1995 Series K	6.20%	2020	1,495	365
1995 Series L	6.25%	2027	12,950	3,155
1995 Series M	5.00% to 5.875%	2005-2017	32,025	8,710
1996 Series A	6.375%	2028	34,480	5,305
1996 Series B	6.35%	2018-2019	7,990	2,715
1996 Series C	5.40% to 6.10%	2005-2015	12,345	2,535
1996 Series D	5.35% to 6.00%	2005-2017	23,580	3,290
1996 Series E	6.25%	2022-2023	14,495	2,965
1996 Series F	6.30%	2026-2028	18,275	3,740
1996 Series G	6.25%	2026-2028	41,810	7,075
1996 Series H	6.00%	2021	13,865	2,350
1996 Series I	7.17% to 8.00%	2005-2017	14,325	1,955
1996 Series J	5.60%	2021	915	260
1996 Series K	4.50% to 5.40%	2005-2017	9,280	3,315
1997 Series A	5.20% to 5.95%	2005-2017	22,630	4,920
1997 Series B	6.20%	2021	9,180	2,800
1997 Series C	6.25%	2029	27,740	3,220
1997 Series D	5.80% to 5.85%	2019-2021	15,885	5,130
1997 Series E	5.90%	2029	23,495	4,385
1997 Series F	7.12% to 7.25%	2005-2007	11,620	600
1997 Series G	5.25% to 6.00%	2005-2018	40,260	4,125
1997 Series I	5.50%	2017	9,730	4,245
1997 Series K	5.75%	2026-2029	22,700	9,895
1997 Series L	6.65% to 6.80%	2005-2007	9,550	860
1998 Series A	4.65% to 5.20%	2008-2017	5,710	1,985
1998 Series B	4.65% to 5.50%	2005-2029	17,030	4,345
1998 Series C	4.45% to 5.25%	2005-2017	21,775	7,730
1998 Series E	5.40%	2025-2030	30,500	14,340
1998 Series F-1	4.55% to 5.45%	2005-2017	10,650	3,495

Bonds Payable, Net (continued)

Series	Interest rate	Maturity	Original Amount	Outstanding Amount
Single Family Mortgage Bonds (continued)				
1998 Series G-1	5.60%	2022	$ 6,150	$ 2,610
1998 Series H-1	5.65%	2031	14,885	6,315
1998 Series F-2	4.75% to 5.70%	2005-2017	11,385	6,005
1998 Series G-2	6.00%	2022	6,605	4,390
1998 Series H-2	6.05%	2031	15,965	10,620
1999 Series B	5.00% to 5.25%	2013-2020	18,865	10,165
1999 Series C	4.40% to 4.85%	2005-2024	21,960	6,310
1999 Series D	5.45%	2026-2031	23,975	12,945
1999 Series H	5.30% to 5.80%	2011-2021	16,350	7,790
1999 Series I	4.80% to 6.05%	2005-2031	34,700	12,400
1999 Series J	5.00%	2017	4,745	3,605
1999 Series K	3.40% to 5.35%	2005-2033	44,515	32,720
2000 Series A	5.25% to 5.85%	2009-2020	18,650	9,215
2000 Series B	5.25% to 5.55%	2005-2024	16,580	6,115
2000 Series C	6.10%	2030-2032	30,320	14,985
2000 Series F	Variable	2031	20,000	19,410
2000 Series G	4.25% to 5.40%	2008-2025	39,990	28,675
2000 Series H	4.10% to 5.50%	2005-2023	32,475	19,430
2000 Series I	4.90% to 5.80%	2005-2019	20,185	11,890
2000 Series J	5.40% to 5.90%	2023-2030	29,720	18,660
2001 Series A	5.35% to 5.45%	2017-2022	14,570	9,770
2001 Series B	4.30% to 5.675%	2005-2030	34,855	20,720
2001 Series E	2.00% to 4.90%	2006-2035	23,000	22,395
			1,389,555	507,615
Combined Totals			$3,281,660	$2,030,500

The Agency uses special and optional redemption provisions to retire certain bonds prior to their stated maturity from unexpended bond proceeds and revenues in excess of scheduled debt service resulting primarily from loan prepayments.

All bonds are subject to optional redemption after various dates at an amount equal to 100% to 102% of the unpaid principal and accrued interest as set forth in detail within the applicable series resolution.

Bonds Payable, Net (continued)

Annual debt service requirements to maturity for bonds outstanding as of June 30, 2005, are as follows (in thousands):

	Rental Housing Bonds		Residential Housing Finance Bonds	
Fiscal Year	Principal	Interest	Principal	Interest
2006	$11,260	$ 9,136	$501,465	$ 38,313
2007	11,325	8,778	187,315	29,465
2008	11,470	8,397	16,540	25,159
2009	12,040	7,978	11,950	24,665
2010	12,665	7,507	17,455	24,103
2011-2015	61,125	29,264	83,040	110,467
2016-2020	41,145	17,726	88,100	91,466
2021-2025	19,220	9,662	108,155	71,224
2026-2030	14,400	5,407	136,400	48,403
2031-2035	7,820	2,418	148,740	19,712
2036-2040	2,675	1,094	15,545	549
2041-2045	3,035	428	—	—

	Single Family Mortgage Bonds		Combined Totals	
Fiscal Year	Principal	Interest	Principal	Interest
2006	$ 46,660	$ 26,983	$559,385	$ 74,432
2007	9,500	25,491	208,140	63,734
2008	9,565	25,013	37,575	58,570
2009	10,100	24,529	34,090	57,173
2010	11,195	23,992	41,315	55,601
2011-2015	76,455	109,076	220,620	248,808
2016-2020	92,020	85,009	221,265	194,201
2021-2025	108,505	57,175	235,880	138,061
2026-2030	110,965	24,737	261,765	78,547
2031-2035	32,020	2,867	188,580	24,996
2036-2040	630	15	18,850	1,658
2041-2045	—	—	3,035	428

The principal due for convertible option bonds (COBs) is reflected in subsequent fiscal year columns of the table above based on the mandatory tender dates of those bonds. This presentation does not alter the expectation that these bonds will be remarketed long-term at or prior to their mandatory tender date. COBs are secured by investment contracts that are structured to provide liquidity at each debt service payment date in the amounts due to bondholders. Such investment contracts are included in cash and cash equivalents on the statement of net assets.

Residential Housing Finance Bonds 2003 Series B and J, 2004 Series G, and 2005 Series C and I accrue interest at a rate that changes each week. The rate is determined through a weekly remarketing of the outstanding bonds. Future interest due for these series, as displayed above in the annual debt service requirements table, is based upon the rate as of June 30, 2005. As rates vary, variable rate bond interest payments will vary. The associated interest rate swaps are not included in the annual debt service requirements table. See the Swap Payments and Associated Debt table below to view those amounts.

The Single Family Bonds, 2000 Series F accrue interest at a variable rate that is recalculated for each calendar month. The rate is the sum of the monthly London Interbank Offered Rate plus 0.30% per annum provided that the rate may not be more than 11.00% per annum. This series was placed with a single investor. Future interest due for this series, as displayed above in the annual debt service requirements table, is based upon the calculated rate as of June 30, 2005. As rates vary, variable rate bond interest payments will vary.

Bonds Payable, Net (continued)

The income and assets of each of the bond funds are pledged for the payment of principal and interest on the bonds issued, and to be issued, by the respective programs. The bond resolutions contain covenants that govern the respective programs financed thereby and require the Agency to maintain certain reserves and meet certain reporting requirements. The Agency believes that as of June 30, 2005, it is in compliance with those covenants and the assets of all funds and accounts in the bond funds equaled or exceeded the requirements as established by the respective bond resolutions.

As of or after June 30, 2005, the Agency called for early redemption of certain bonds that are described under Subsequent Events.

Interest Rate Swaps

Objective of Swaps

The Agency has entered into interest rate swap agreements in connection with issuing variable rate mortgage revenue bonds. The intentions of the swaps were to create synthetic fixed rate debt at a lower interest rate than achievable from long-term fixed rate bonds and to achieve the Agency's goal of lending to low- and moderate-income, first-time home buyers at below market, fixed interest rates.

Swap Payments and Associated Debt

Using rates as of June 30, 2005, debt service requirements of the Residential Housing Finance outstanding variable rate debt and net swap payments, assuming current interest rates remain the same for their term, are as follows (in thousands). As rates vary, variable rate bond interest payments and net swap payments will vary.

Fiscal Year	Principal	Interest	Interest Rate Swaps, Net	Total
2006	$ 440	$ 3,398	$ 2,250	$ 6,088
2007	—	3,941	2,071	6,012
2008	—	3,941	1,791	5,732
2009	—	3,941	1,521	5,462
2010	—	3,941	1,257	5,198
2011-2015	—	19,706	2,740	22,446
2016-2020	4,655	19,604	(2,612)	21,647
2021-2025	39,955	17,447	(5,689)	51,713
2026-2030	63,885	11,007	(5,957)	68,935
2031-2035	52,445	3,211	(2,234)	53,422
2036-2040	3,480	61	(21)	3,520

Terms of Swaps

The terms, including the fair values and counterparty credit ratings of the outstanding swaps as of June 30, 2005, are contained in the table below. The initial notional amounts of the swaps match the principal amounts of the associated debt. The Agency's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled or anticipated reductions in outstanding principal amounts of the associated bond series. The Agency has purchased the cumulative right, based upon a 300% Bond Market Association (BMA) prepayment rate on the underlying mortgage loans, to further reduce the notional balances of the swaps as necessary and the right to terminate the outstanding swap balances at par value on approximately the 10-year anniversary date of the swaps. The Agency has the right to terminate swaps at fair value at any time.

Interest Rate Swaps (continued)

Associated Bond Series	Current Notional Amount	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Values	Swap Termination Date	Counterparty Credit Rating
RHFB 2003B	$ 25,000,000	July 23, 2003	3.532%	65% of one-month LIBOR* plus 0.23% per annum	$ (294,770)	January 1, 2033	Aa2**/ AA+***
RHFB 2003J	24,860,000	October 15, 2003	4.183%	65% of one-month LIBOR* plus 0.24% per annum	(2,001,922)	July 1, 2033	Aa2**/ AA+***
RHFB 2004G	50,000,000	July 22, 2004	4.165%	64% of one-month LIBOR* plus 0.28% per annum	(3,582,471)	January 1, 2032	Aa2**/ AA-***
RHFB 2005C	25,000,000	March 2, 2005	3.587%	64% of one-month LIBOR* plus 0.28% per annum	(795,342)	January 1, 2035	Aa2**/ AA+***
RHFB 2005I	40,000,000	June 2, 2005	3.570%	64% of one-month LIBOR* plus 0.28% per annum	(2,024,920)	January 1, 2036	Aa1**/ AA-***
Total	$164,860,000				$(8,699,425)		

*London Interbank Offered Rate
**Moody's Investors Service, Inc.
***Standard & Poor's Inc.

Swap Valuation

The Fair Values presented above were estimated by the Agency's counterparties to the swaps. The valuation was determined by calculating the difference between the present values of each fixed cash flow to be paid and each floating cash flow to be received by the Agency based upon the current market yield curve. The present value factors for each cash flow are based on the implied zero coupon yield curve determined by current market rates. Additionally, the values of the call options are determined by calculating the present value of each predicted option outcome, whose interest rate prediction variance is determined by current market implied volatility. Together these calculations along with accrued interest at the fixed contractual interest rate determine the current fair value of the Agency's swap contracts. The Fair Values in the table above represent the termination payments that would have been due had the swaps been terminated as of June 30, 2005. A positive fair value represents money due the Agency by the counterparty upon termination of the swap while a negative fair value represents money payable by the Agency.

Termination Risk

The Agency's swap contracts are based upon the International Swap Dealers Association Master Agreement, which includes standard termination events. The swap contracts may be terminated by either party if the other party fails to perform under the terms of the contract. Upon termination, a payment is due to one party irrespective of causality based upon the fair value of the swap. The potential termination risks to the Agency are the liability for a termination payment to the counterparty or the inability to replace the swap under favorable financial terms. To reduce the Agency's termination risk, the swap contracts limit the counterparty's ability to terminate due to the following Agency actions or events: payment default, other defaults that remain uncured for 30 days after notice, bankruptcy and insolvency.

Interest Rate Swaps (continued)

Credit Risk

The terms of the swaps expose the Agency to potential credit risk with the counterparty upon the occurrence of a termination event. The fair value of a swap represents the Agency's current credit exposure to the counterparties with which the swaps were executed. As of June 30, 2005, the Agency did not have a net credit risk exposure to its counterparties because the combined swap positions had a negative net fair value. The swap agreements contain varying collateral requirements based upon counterparty credit rating and the fair value of the swap. These bi-lateral requirements are established to mitigate potential credit risk exposure. These requirements were met as of June 30, 2005.

Amortization Risk

The Agency may incur amortization risk because prepayments from the mortgage loan portfolio may cause the outstanding amount of variable rate bonds to decline faster than the amortization of the swap. To ameliorate amortization risk, call options were structured within the swaps to enable the Agency to closely manage the outstanding balances of variable rate bonds and notional swap amounts. Additionally, the Agency may terminate the swaps at market value at any time.

Basis Risk

The Agency incurs the potential risk that the variable interest payments on its bonds will not equal the variable interest receipts from its swaps. This basis risk exists because the Agency pays a variable rate on its bonds based on the weekly tax-exempt BMA rate but under the terms of its swaps receives a variable rate based upon the one-month, taxable LIBOR rate. Basis risk will vary over time due to inter-market conditions. As of June 30, 2005, the interest rate on the Agency's variable rate debt was 2.30% to 2.35% per annum while the interest rate on the swaps was 2.252% to 2.271% per annum. In order to reduce the cumulative effects of basis risk, the variable rate determination structure for interest receipts within the swap is based upon a regression analysis of the long-term relationship between these two interest rate indices.

Tax Risk

The structure of the variable interest rate payments the Agency receives from its swap contracts are based upon the historical long-term relationship between taxable and tax-exempt short-term interest rates. Tax risk represents a risk that may arise due to a change in the tax code that may fundamentally alter this relationship. The Agency has chosen to assume this risk because it was economically unfeasible to transfer to the swap counterparty.

Defeased Debt

On November 17, 2004, the Agency issued $80,000,000 of Rental Housing Bonds, 2004 Series C that, together with an Agency contribution of $4.241 million, defeased, in part, previously issued Rental Housing Bonds, 1995 Series D. Consequently, the trust account assets and the liability for the defeased bonds were not included in the Agency's statement of net assets after that date. The reacquisition price exceeded the net carrying amount of the defeased debt by $4.726 million, which has been netted against the new debt and amortized over the remaining life of the new debt. The refunding of these bonds decreased total future debt service by approximately $12.774 million and resulted in a present value savings of approximately $8.114 million. At June 30, 2005, the outstanding principal of the defeased bonds was $0.

Accounts Payable and Other Liabilities

Accounts payable and other liabilities at June 30, 2005 consist of the following (in thousands):

Funds	Arbitrage Rebate Payable to the Federal Government	Accrued Salaries, Compensated Absences and Employee Benefits	Other Liabilities and Accounts Payable	Total
General Reserve	$ —	$2,273	$1,307	$ 3,580
Rental Housing	1,029	—	34	1,063
Residential Housing Finance	1,884	—	2,128	4,012
Single Family	7,030	—	122	7,152
State Appropriated	—	—	454	454
Federal Appropriated	—	—	1,058	1,058
Agency-wide Totals	$9,943	$2,273	$5,103	$17,319

The amount of arbitrage rebate payable that is not due within one year in Rental Housing is $.683 million, in Residential Housing Finance is $1.579 million and in Single Family is $4.576 million, for a total of $6.838 million.

Interfund Balances

Interfund balances displayed as Interfund Payable (Receivable) at June 30, 2005 consist of the following (in thousands):

		Due from						
	Funds	General Reserve	Rental Housing	Residential Housing Finance	Single Family	State Appropriated	Federal Appropriated	Total
Due to	General Reserve	$ —	$ 5	$ 23	$ —	$ 2	$216	$ 246
Due to	Rental Housing	58	—	—	—	—	—	58
Due to	Residential Housing Finance	3,777	21,058	—	—	—	—	24,835
Due to	Single Family	—	—	—	—	—	—	—
Due to	State Appropriated	—	—	271	547	—	—	818
Due to	Federal Appropriated	—	—	—	—	—	—	—
Due to	Agency-wide Totals	$3,835	$21,063	$294	$547	$ 2	$216	$25,957

The $21.058 million due to Residential Housing Finance reflects advances made to Rental Housing in fiscal 1997 and accrued interest on those advances. The advances were made to take advantage of economically favorable conditions for optionally redeeming bonds in Rental Housing. Repayment of the advances continues according to the original debt repayment schedule. The portion that will not be repaid within one year is $19.882 million.

All remaining balances resulted from the time lag between the dates that (1) interfund goods or services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund Transfers

Interfund transfers recorded in Interfund Payable (Receivable) for the year ended June 30, 2005 consist of the following (in thousands):

	Funds	Transfer from: General Reserve	Rental Housing	Residential Housing Finance	Single Family	State Appropriated	Federal Appropriated	Total
Transfer to	General Reserve-administrative reimbursement	$—	$1,909	$6,050	$4,234	$4,359	$772	$17,324
	Rental Housing	—	—	—	—	—	—	—
	Residential Housing Finance	—	1,853	—	—	—	—	1,853
	Single Family	—	—	—	—	—	—	—
	State Appropriated	—	—	120	620	—	—	740
	Federal Appropriated	—	580	—	—	—	—	580
	Agency-wide Totals	$—	$4,342	$6,170	$4,854	$4,359	$772	$20,497

Interfund transfers recorded in Interfund Payable (Receivable) are used to move loan payments that were deposited for administrative convenience in a fund not holding the loans, to make payments for administrative reimbursements due the General Reserve from the other funds, to pay for loans transferred between funds, and to move payments from Rental Housing to Residential Housing Finance due on outstanding loans between those funds.

Interfund transfers recorded in Non-operating Transfer of Assets Between Funds for the year ended June 30, 2005, consist of the following (in thousands):

	Funds	Transfer from: General Reserve	Rental Housing	Residential Housing Finance	Single Family	State Appropriated	Federal Appropriated	Total
Transfer to	General Reserve	$ —	$—	$ —	$ —	$—	$—	$ —
	Rental Housing	—	—	998	—	—	—	998
	Residential Housing Finance	4,036	—	—	13,993	—	—	18,029
	Single Family	—	—	—	—	—	—	—
	State Appropriated	—	—	—	—	—	—	—
	Federal Appropriated	—	—	—	—	—	—	—
	Agency-wide Totals	$4,036	$—	$998	$13,993	$—	$—	$19,027

Interfund transfers recorded in Non-operating Transfer of Assets Between Funds normally result from bond sale contributions to new debt issues in other funds, the transfer of assets to maintain the Housing Endowment Fund requirement and periodic transfers from the bond funds of assets in excess of bond resolution requirements.

Net Assets

Restricted by Bond Resolution

Restricted by Bond Resolution Net Assets represents those funds restricted within the respective bond resolution due to the specific provisions of the bond resolutions.

Restricted by Covenant

In accordance with provisions of the respective bond resolutions, the Agency may transfer money from bond funds to General Reserve. The Agency has pledged to deposit in General Reserve any such funds transferred from the bond funds, except for any amounts as may be necessary to reimburse the state for money appropriated to restore a deficiency in any debt service reserve fund. The Agency further covenants that it will use the money in General Reserve only for the administration and financing of programs in accordance with the policy and purpose of the MHFA enabling legislation, including reserves for the payment of bonds and of loans made from

Net Assets (continued)

the proceeds thereof, and will accumulate and maintain therein such a balance of funds and investments as will be sufficient for that purpose. All interfund transfers are approved by the Board of the Agency.

In order to provide financial security for the Agency's bondholders, and to provide additional resources for housing loans to help meet the housing needs of low- and moderate-income Minnesota residents, the Agency's Board adopted the investment guidelines in the following table. These guidelines are periodically evaluated in consideration of changes in the economy and in the Agency's specific risk profile. The following table describes total net assets restricted by covenant, including the balances to be maintained according to the Agency's Board guidelines, as of June 30, 2005 (in thousands):

Net Assets — Restricted By Covenant	Certain Balances Maintained According to Agency's Board Guidelines	Unrealized Appreciation (Depreciation) in Fair Market Value of Investments	Mitigate Pool 1 Unrealized Depreciation in Fair Market Value	Total Net Assets Restricted by Covenant
Housing Endowment Fund (Pool 1), General Reserve				
An amount equal to 2% of gross loans outstanding (excluding loans reserved 100% and appropriated loans) will be invested in short term, investment grade paper at market interest rates	$30,783	$ —	$ —	$30,783
Unrealized depreciation in fair market value of investments, excluding multifamily development escrow investments	—	(155)	155	—
Subtotal, Housing Endowment Fund (Pool 1), General Reserve	30,783	(155)	155	30,783
Housing Investment Fund (Pool 2), Residential Housing Finance				
An amount equal to 5% of bonds outstanding less the Housing Endowment Fund (Pool 1) will be invested in intermediate-to long-term, investment grade housing loans, as defined by the Agency, at interest rates which could be up to 3% below market	70,742	—	—	70,742
Unrealized appreciation in fair market value of investments	—	240	—	240
Subtotal, Housing Investment Fund (Pool 2), Residential Housing Finance	70,742	240	—	70,982

Net Assets (continued)

Net Assets — Restricted By Covenant	Certain Balances Maintained According to Agency's Board Guidelines	Unrealized Appreciation (Depreciation) in Fair Market Value of Investments	Mitigate Pool 1 Unrealized Depreciation in Fair Market Value	Total Net Assets Restricted by Covenant
Housing Affordability Fund (Pool 3), Residential Housing Finance				
Funds in excess of 5% of bonds may be used for administration of housing programs, contributions to bond issues, early bond redemptions, and low interest rate loans with higher than ordinary risk factors	$191,581	$ —	$ —	$191,581
Unrealized appreciation in fair market value of investments		406	(155)	251
Subtotal, Housing Affordability Fund (Pool 3), Residential Housing Finance	191,581	406	(155)	191,832
Agency-wide Total	$293,106	$491	$ —	$293,597

The Housing Endowment Fund (Pool 1) is maintained in the Restricted By Covenant Net Assets of General Reserve. The Housing Investment Fund (Pool 2) and the Housing Affordability Fund (Pool 3) are maintained in the Restricted by Covenant Net Assets of Residential Housing Finance fund.

In connection with self-insuring certain single family loans, the Agency has agreed to maintain General Reserve net assets of at least 125% of the Single Family Mortgage bond resolution insurance reserve. The amount aggregated $10.718 million at June 30, 2005.

Restricted by Law

Undisbursed, recognized federal and state appropriations are classified as net assets restricted by law.

Defined Benefit Pension Plan

The Agency contributes to the Minnesota State Retirement System (System), a multiple-employer public employee retirement system, which provides pension benefits for all permanent employees.

Employees who retire at "normal" retirement age or, for those hired on or before June 30, 1989, at an age where they qualify for the "Rule of 90" (i.e., at an age where age plus years of service equals or exceeds 90) are entitled to an unreduced monthly benefit payable for life. For those hired on or before June 30, 1989, normal retirement age is age 65, or age 62 with 30 years of service. For those hired after June 30, 1989, normal retirement age is the Social Security retirement age. The monthly benefit is calculated according to the "step formula" for anyone retiring under the Rule of 90. For those hired on or before June 30, 1989 and not retiring under the Rule of 90, the monthly benefit is calculated according to the step formula or the "level formula," whichever provides the largest benefit. For those hired after June 30, 1989, the monthly benefit is calculated according to the level formula. Under the step formula, an employee earns a 1.2% credit for each of the first 10 years of employment and a 1.7% credit for each year thereafter. The monthly benefit is then determined by applying the sum of these credits to the average monthly salary earned during the employee's five years of greatest earnings. Under the level formula the monthly benefit is computed just as it is under the step formula except that an employee earns a 1.7% credit for

Defined Benefit Pension Plan (continued)

each year of employment, not just for those years beyond the first 10. A reduced benefit is available to those retiring at age 55 with at least three years of service. With 30 years of service, a reduced benefit is available at any age to those hired on or before June 30, 1989. The System also provides death and disability benefits. Benefits are established by Minnesota state law.

The Agency's pension contribution to the System for the year ending June 30, 2005 was $444 thousand.

Details of the benefit plan are provided on a System-wide basis. The Agency portion is not separately determinable. The funding status of the System's benefit plan is summarized as follows.

Schedule of Funding Progress
(dollars in thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Actual Covered Payroll (Previous FY)	UAAL as a % of Covered Payroll
07/01/04	$7,884,984	$7,878,363	$ (6,621)	100.08%	$1,965,546	(0.34)%
07/01/03	7,757,292	7,830,671	73,379	99.06	2,009,975	3.65
07/01/02	7,673,028	7,340,397	(332,631)	104.53	1,915,350	(17.37)

Schedule of Employer Contributions
(dollars in thousands)

Year Ended June 30	Actuarially Required Contribution Rate	Actual Covered Payroll	Actual Member Contributions	Annual Required Contribution	Actual Employer Contribution*	Percent Contributed
2004	9.43%	$1,965,546	$82,102	$103,249	$78,622	76.15%
2003	8.34	2,009,975	83,850	83,782	80,399	95.96
2002	6.79	1,915,350	79,487	50,565	76,614	151.52

*This includes contributions from other sources (if applicable).

The information presented is as of July 1, 2004, which is the latest actuarial information available.

The above summarizes the defined benefit pension plan. Please refer to the June 30, 2004, Minnesota State Retirement System Comprehensive Annual Financial Report for a more comprehensive description. A copy of the System's comprehensive annual financial report can be obtained by contacting Minnesota State Retirement System, 60 Empire Drive, Suite 300, St. Paul, Minnesota 55103 or calling (651) 296-2761.

Risk Management

MHFA is exposed to various insurable risks of loss related to tort; theft of, damage to, or destruction of assets; errors or omissions; and employer obligations. MHFA manages these risks through state of Minnesota insurance plans including the state of Minnesota Risk Management Fund, a self-insurance fund, and through purchased insurance coverage.

Property, casualty, liability, and crime coverage is provided by the Minnesota Risk Management Fund which may also purchase other insurance from qualified insurers for MHFA's needs. MHFA bears a $1,000 deductible per claim for the following coverage limits.

Real and Personal Property	Actual Cost
Business interruption/loss of use/extra expense	$25,000,000
Bodily injury and property damage per person	$ 300,000
Bodily injury and property damage per occurrence	$ 1,000,000
Faithful performance/commercial crime	$11,000,000
Employee dishonesty	$ 25,000

MHFA retains the risk of loss, although there have been no settlements or actual losses in excess of coverage in the last three years.

Risk Management (continued)

The Agency participates in the State Employee Group Insurance Plan, which provides life insurance and hospital, medical, and dental benefits coverage through provider organizations.

MHFA participates in the State of Minnesota Workers' Compensation Program. Annual premiums are assessed by the program based on average costs and claims. MHFA workers compensation costs and claims have been negligible during the last three years.

Commitments

As of June 30, 2005, the Agency had committed the following amounts for the purchase or origination of future loans or other housing assistance amounts (in thousands):

Funds	Amount
General Reserve	$ —
Rental Housing	621
Residential Housing Finance	167,853
Single Family	—
State Appropriated	70,689
Federal Appropriated	25,412
Agency-wide Totals	$264,575

The Agency has cancelable lease commitments for office facilities and parking on a long-term basis. Lease expense for the fiscal year ended June 30, 2005 was $.969 million. Commitments for future minimum lease payments under cancelable leases for office facilities and parking are (in thousands):

	Fiscal Year				
	2006	2007	2008	2009	Total
Amount:	$967	$983	$913	$858	$3,721

The Agency has in place a $15 million revolving line of credit with Wells Fargo Bank, N.A. that expires on December 31, 2005 and may be renewed annually for additional one-year periods through December 31, 2007. The line of credit agreement requires the Agency to maintain certain asset levels and meet certain reporting requirements. At June 30, 2005 there was no balance outstanding. The line of credit activity for the year ended June 30, 2005, is summarized as follows (in thousands):

Beginning Balance	Draws	Repayments	Ending Balance
$0	$0	$0	$0

The Agency is a party to various litigation arising in the ordinary course of business. While the ultimate effect of such actions cannot be predicted with certainty, the Agency expects that the outcome of these matters will not result in a material adverse effect on General Reserve's financial position or results of operations.

Subsequent Events

On June 9, 2005 the Board of the Agency approved series resolutions authorizing the issuance of $162,005,000 bonds for the purpose of providing funds for certain of the Agency's homeownership programs. The Residential Housing Bonds, 2005 Series J, 2005 Series K, 2005 Series L and 2005 Series M were delivered on August 4, 2005.

The Agency called for early redemption subsequent to June 30, 2005 the following bonds:

Program Funds	Retirement Date	Par Value
Residential Housing Finance	July 1, 2005	$11,385,000
Single Family	July 1, 2005	31,740,000
Rental Housing	August 24, 2005	560,000

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MINNESOTA HOUSING FINANCE AGENCY
Supplementary Information (Unaudited)
General Reserve and Bond Funds
Five Year Financial Summary (in thousands)
Fiscal Years 2001 – 2005

		2001	2002	2003	2004	2005
Loans Receivable, net	Multifamily programs	$ 353,893	$ 337,087	$ 348,196	$ 362,870	$ 350,881
	Homeownership programs	1,228,105	1,212,436	1,009,937	932,777	1,061,556
	Home improvement programs	108,860	104,537	92,345	89,157	101,657
	Total	$1,690,858	$1,654,060	$1,450,478	$1,384,804	$1,514,094
Bonds Payable, net	Multifamily programs	$ 325,314	$ 267,739	$ 246,701	$ 216,928	201,200
	Homeownership programs	1,640,348	1,668,449	1,579,978	1,607,661	1,794,886
	Home improvement programs	—	—	20,000	20,000	20,000
	Total	$1,965,662	$1,936,188	$1,846,679	$1,844,589	$2,016,086
Loans purchased or originated during year	Multifamily programs	$ 14,143	$ 18,341	$ 58,607	$ 50,509	$ 20,056
	Homeownership programs	165,633	229,603	145,748	216,109	305,899
	Home improvement programs	40,027	37,281	35,391	34,981	44,279
	Total	$ 219,803	$ 285,225	$ 239,746	$ 301,599	$ 370,234
Net Assets	Total net assets	$ 582,674	$ 612,361	$ 648,459	$ 666,978	$ 697,192
	Percent of total assets	21.5%	22.6%	24.6%	25.2%	24.5%
Revenues over Expenses	Revenues over expenses for the year[1]	$ 42,023	$ 29,687	$ 36,098	$ 18,519	$ 30,214

Notes:

(1) Includes Administrative Reimbursement revenue received from State Appropriated fund of $5,618 in 2002, $4,497 in 2003, $4,131 in 2004, and $4,251 in 2005. This revenue item was included in revenues over expenses beginning in 2002 due to GASB 34 presentation requirements.

MINNESOTA HOUSING FINANCE AGENCY
Supplementary Information (Unaudited)
Statement of Net Assets (in thousands)
General Reserve and Bond Funds
June 30, 2005 (with comparative totals for June 30, 2004)

			Bond Funds		
		General Reserve	Rental Housing	Residential Housing Finance	Single Family
Assets	Cash and cash equivalents	$ 4,841	$ 41,485	$ 844,611	$165,952
	Investment securities	110,692	47,840	84,376	14,708
	Loans receivable, net	—	212,420	893,785	407,889
	Interest receivable on loans	—	1,289	3,956	2,278
	Interest receivable on investments	819	1,153	815	516
	Mortgage insurance claims receivable	—	—	485	437
	Real estate owned	—	—	289	616
	Capital assets, net	2,764	—	—	—
	Other assets	1,228	3	25	—
	Total assets	$120,344	$304,190	$1,828,342	$592,396
Liabilities	Bonds payable, net	$ —	$201,200	$1,312,647	$502,239
	Interest payable	—	3,846	18,334	13,779
	Accounts payable and other liabilities	3,580	1,063	4,012	7,152
	Interfund payable (receivable)	3,589	21,005	(24,541)	547
	Funds held for others	79,628	—	—	—
	Total liabilities	86,797	227,114	1,310,452	523,717
	Commitments and contingencies				
Net Assets	Restricted by bond resolution	—	77,076	255,076	68,679
	Restricted by covenant	30,783	—	262,814	—
	Invested in capital assets	2,764	—	—	—
	Total net assets	33,547	77,076	517,890	68,679
	Total liabilities and net assets	$120,344	$304,190	$1,828,342	$592,396

2005 Total General Reserve and Bond Funds	2004 Total General Reserve and Bond Funds
$1,056,889	$ 939,989
257,616	309,354
1,514,094	1,384,804
7,523	7,395
3,303	3,425
922	763
905	1,593
2,764	1,774
1,256	1,649
$2,845,272	$2,650,746
$2,016,086	$1,844,589
35,959	36,283
15,807	15,152
600	1,234
79,628	86,510
2,148,080	1,983,768
400,831	387,747
293,597	277,457
2,764	1,774
697,192	666,978
$2,845,272	$2,650,746

MINNESOTA HOUSING FINANCE AGENCY
Supplementary Information (Unaudited)
Statement of Revenues, Expenses and Changes in Net Assets (in thousands)
General Reserve and Bond Funds
Year ended June 30, 2005 (with comparative totals for the year ended June 30, 2004)

			Bond Funds		
		General Reserve	Rental Housing	Residential Housing Finance	Single Family
Revenues	Interest earned on loans	$ —	$14,552	$ 44,910	$ 30,811
	Interest earned on investments	730	3,442	21,695	9,202
	Administrative reimbursement	17,219	—	—	—
	Fees earned and other income	8,092	892	421	—
	Unrealized gains (losses) on securities	(251)	1,449	177	899
	Total revenues	25,790	20,335	67,203	40,912
Expenses	Interest	—	12,836	34,935	32,092
	Loan administration and trustee fees	—	239	3,361	1,658
	Administrative reimbursement	—	1,909	6,050	4,234
	Salaries and benefits	13,693	—	—	—
	Other general operating	5,227	—	897	—
	Reduction in carrying value of certain low interest rate deferred loans	—	(135)	5,873	—
	Provision for loan losses	—	(521)	1,667	11
	Total expenses	18,920	14,328	52,783	37,995
	Revenues over expenses	6,870	6,007	14,420	2,917
Other changes	Non-operating transfer of assets between funds	(3,438)	998	16,433	(13,993)
	Change in net assets	3,432	7,005	30,853	(11,076)
Net Assets	Total net assets, beginning of year	30,115	70,071	487,037	79,755
	Total net assets, end of year	$33,547	$77,076	$517,890	$ 68,679

2005 Total General Reserve and Bond Funds	2004 Total General Reserve and Bond Funds
$ 90,273	$ 95,296
35,069	37,248
17,219	14,349
9,405	8,883
2,274	(9,022)
154,240	146,754
79,863	89,514
5,258	5,302
12,193	9,532
13,693	13,131
6,124	6,034
5,738	2,492
1,157	2,230
124,026	128,235
30,214	18,519
—	—
30,214	18,519
666,978	648,459
$697,192	$666,978

MINNESOTA HOUSING FINANCE AGENCY
Supplementary Information (Unaudited)
Statement of Cash Flows (in thousands)
General Reserve and Bond Funds
Year ended June 30, 2005 (with comparative totals for the year ended June 30, 2004)

		General Reserve Account	Bond Funds: Rental Housing	Bond Funds: Residential Housing Finance	Bond Funds: Single Family
Cash flows from operating activities	Principal repayments on loans	$ —	$ 22,977	$ 92,607	$ 113,299
	Investment in loans	—	(6,045)	(363,753)	(436)
	Interest received on loans	—	15,457	44,718	29,654
	Other operating	—	—	(897)	—
	Fees and other income received	8,057	892	451	—
	Salaries, benefits and vendor payments	(18,623)	(214)	(2,603)	(1,575)
	Administrative reimbursement from funds	17,324	(1,909)	(6,050)	(4,234)
	Interest transferred to funds held for others	(2,484)	—	—	—
	Deposits into funds held for others	30,445	—	—	—
	Disbursements made from funds held for others	(37,052)	—	—	—
	Interfund transfers and other assets	(1,057)	—	368	(620)
	Net cash provided (used) by operating activities	(3,390)	31,158	(235,159)	136,088
Cash flows from noncapital financing activities	Proceeds from sale of bonds	—	85,290	713,728	—
	Principal repayment on bonds	—	(98,795)	(333,295)	(192,795)
	Interest paid on bonds and notes	—	(11,339)	(27,580)	(36,002)
	Financing costs paid related to bonds issued	—	(3,053)	(2,898)	—
	Interest paid/received between funds	—	(1,635)	1,635	—
	Principal paid/received between funds	—	(218)	218	—
	Premium paid on redemption of bonds	—	—	—	(142)
	Agency contribution to program funds	—	188	13,805	(13,993)
	Transfer of cash between funds	(4,036)	810	3,226	—
	Net cash provided (used) by noncapital financing activities	(4,036)	(28,752)	368,839	(242,932)
Cash flows from investing activities	Investment in real estate owned	—	—	(95)	(533)
	Interest received on investments	3,566	3,539	19,655	7,215
	Proceeds from sale of mortgage insurance claims/real estate owned	—	—	1,558	5,435
	Proceeds from maturity, sale or transfer of investment securities	99,604	14,180	97,912	6,300
	Purchase of investment securities	(95,710)	(21,913)	(38,016)	(7,613)
	Net cash provided (used) by investing activities	7,460	(4,194)	81,014	10,804
	Net increase (decrease) in cash and cash equivalents	34	(1,788)	214,694	(96,040)
Cash and cash equivalents	Beginning of year	4,807	43,273	629,917	261,992
	End of year	$ 4,841	$ 41,485	$ 844,611	$ 165,952

2005 Total General Reserve and Bond Funds	2004 Total General Reserve and Bond Funds
$ 228,883	$ 359,918
(370,234)	(301,599)
89,829	92,036
(897)	(252)
9,400	8,988
(23,015)	(23,321)
5,131	4,852
(2,484)	(2,649)
30,445	35,917
(37,052)	(35,751)
(1,309)	(463)
(71,303)	137,676
799,018	764,426
(624,885)	(765,673)
(74,921)	(89,538)
(5,951)	(4,726)
—	—
—	—
(142)	(1,418)
—	—
—	—
93,119	(96,929)
(628)	(741)
33,975	37,624
6,993	6,593
217,996	235,743
(163,252)	(225,311)
95,084	53,908
116,900	94,655
939,989	845,334
$1,056,889	$ 939,989

(continued)

MINNESOTA HOUSING FINANCE AGENCY
Supplementary Information (Unaudited)
Statement of Cash Flows (in thousands)
General Reserve and Bond Funds (continued)
Year ended June 30, 2005 (with comparative totals for the year ended June 30, 2004)

Reconciliation of revenue over expenses to net cash provided (used) by operating activities

	General Reserve	Bond Funds: Rental Housing	Bond Funds: Residential Housing Finance	Bond Funds: Single Family
Revenues over expenses	$ 6,870	$ 6,007	$ 14,420	$ 2,917
Adjustments to reconcile revenues over (under) expenses to net cash provided (used) by operating activities:				
Amortization of premiums (discounts) and fees on loans	—	(65)	1,000	(1,524)
Depreciation	555	—	—	—
Realized losses (gains) on sale of securities, net	9	—	(1,193)	—
Unrealized losses (gains) on securities, net	251	(1,449)	(177)	(899)
Provision for loan losses	—	(521)	1,667	11
Reduction in carrying value of certain low interest rate and/or deferred loans	—	(135)	5,873	—
Capitalized interest on loans and real estate owned	—	(67)	(123)	(276)
Interest earned on investments	(739)	(3,438)	(21,548)	(9,706)
Interest expense on bonds and notes	—	12,836	34,935	32,092
Changes in assets and liabilities:				
Decrease (increase) in loans receivable, excluding loans transferred between funds	—	16,932	(271,146)	112,863
Decrease (increase) in interest receivable on loans	—	408	(1,069)	533
Increase in arbitrage rebate liability	—	625	1,046	614
Interest transferred to funds held for others	(2,484)	—	—	—
Increase in accounts payable	124	20	791	78
Increase (decrease) in interfund payable, affecting operating activities only	479	—	(119)	(620)
Increase (decrease) in funds held for others	(6,607)	—	—	—
Other	(1,848)	5	484	5
Total	(10,260)	25,151	(249,579)	133,171
Net cash provided (used) by operating activities	$ (3,390)	$31,158	$(235,159)	$136,088

2005 Total General Reserve and Bond Funds	2004 Total General Reserve and Bond Funds
$ 30,214	$ 18,519
(589)	(3,464)
555	481
(1,184)	(2,023)
(2,274)	9,022
1,157	2,230
5,738	2,492
(466)	(537)
(35,431)	(36,478)
79,863	89,514
(141,351)	58,319
(128)	637
2,285	1,358
(2,484)	(2,649)
1,013	518
(260)	(91)
(6,607)	166
(1,354)	(338)
(101,517)	119,157
$ (71,303)	$137,676

Other Information

Legal and Financial Services

Bond Trustee
Wells Fargo Bank, N.A.

Bond Paying Agent
Wells Fargo Bank, N.A.

Bond Counsel
Dorsey & Whitney LLP, Minneapolis

Financial Advisor
Caine Mitter & Associates

Underwriting Team
UBS Financial Services Inc.
Piper Jaffray & Co.
RBC Dain Rauscher Inc.

Certified Public Accountants
Larson, Allen, Weishair & Co., LLP

Location

The Minnesota Housing Finance Agency offices are located at 400 Sibley Street, Suite 300, St. Paul, Minnesota 55101-1998.

For further information, please write, call or visit our web site.

(651) 296-7608 (general phone number)

(800) 657-3769 (toll free)

(651) 296-8139 (fax number)

www.mhfa.state.mn.us

If you use a text telephone or Telecommunications Device for the Deaf, you may call (651) 297-2361.

The Minnesota Housing Finance Agency does not discriminate on the basis of race, color, status with regard to receipt of public assistance, creed, marital status, sexual orientation, familial status, national origin, sex, religion, age, or disability in employment or the provision of services or resources. Information contained in this publication will be made available in an alternative format upon request.

APPENDIX C

SUMMARY OF CONTINUING DISCLOSURE AGREEMENT

The following statements are extracted provisions of the Continuing Disclosure Agreement between the Agency and the Trustee.

Definitions. In addition to the definitions set forth in the Resolution, which apply to any capitalized term used in this Disclosure Agreement, the following capitalized terms shall have the following meanings:

> "Agency Annual Report" shall mean any Annual Report provided by the Agency pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.
>
> "Agency Disclosure Representative" shall mean such officer of the Agency or a designee, or such other person or agent of the Agency as the Commissioners shall designate in writing to the Trustee from time to time.
>
> "Beneficial Owners" shall mean (1) in respect of a Series Bond subject to a book-entry-only registration system, any person or entity which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, such Series Bond (including persons or entities holding Series Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of the Series Bond for federal income tax purposes, and such person or entity provides to the Trustee evidence of such beneficial ownership in form and substance reasonably satisfactory to the Trustee; or (2) in respect of a Series Bond not subject to a book-entry-only registration system, the registered owner or owners thereof appearing in the bond register maintained by the Trustee, as Registrar.
>
> "Listed Events" shall mean any of the events listed below under the heading "Reporting of Significant Events."
>
> "National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule.
>
> "Repository" shall mean each National Repository and each State Repository.
>
> "Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission ("SEC") under the Securities Exchange Act of 1934 ("1934 Act").
>
> "State Repository" shall mean any public or private repository or entity as may be designated by the State as a state information depository for the purpose of the Rule. As of the date of this Disclosure Agreement, there is no State Repository.

Provision of Annual Reports.

(a) The Agency shall, no later than nine months after the close of each fiscal year, commencing with the fiscal year ending June 30, 2006, provide to each Repository and to the Trustee, an Agency Annual Report in compliance with the requirements of Section 4 of this Disclosure Agreement.

(b) If on the date specified in subsection (a) for providing the Agency Annual Report to Repositories, the Trustee has not received a copy of the Agency Annual Report, the Trustee shall contact the Agency Disclosure Representative to determine if the Agency is in compliance with subsection (a). If the Trustee determines that the Agency has not filed its Agency Annual Report, when due, the Trustee shall file a notice with the Repositories as set forth in Exhibit A and as required by Rule 15c2-12(b)(5)(i)(D).

Content of Annual Reports. The Agency's Annual Report shall contain or include by reference the following:

Audited financial statements of the Agency for its prior fiscal year reporting on the statements of net assets of the Agency's Residential Housing Finance Program Fund and the General Reserve Account of the Housing Development Fund and related statements of revenues and expenses, changes in net assets and statement of cash flows. If, on the date the Agency is required to provide the Agency Annual Report, the Agency has not received a report of independent auditors, the Agency shall provide the Repositories and the Trustee with its unaudited financial statements prepared in substantially the format of its audited financial statements.

Any or all of the items listed above may be provided by reference to other documents, including official statements of debt issues of the Agency or related public entities, which have been submitted to each of the Repositories. If the document provided by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Agency shall clearly identify each such other document so incorporated by reference in the Agency's Annual Report.

The accounting principles used by the Agency in the preparation of its financial statements are accounting principles generally accepted in the United States of America, referred to as "GAAP."

Reporting of Significant Events.

(a) This section shall govern the giving of notices of the occurrence of any of the following events with respect to the Series Bonds:

1. Principal and interest payment delinquencies;
2. Non-payment related defaults;
3. Unscheduled draws on debt service reserves reflecting financial difficulties;
4. Unscheduled draws on credit enhancements reflecting financial difficulties;
5. Substitution of credit or liquidity providers, or their failure to perform;
6. Adverse tax opinions or events affecting the tax-exempt status of the security;
7. Modifications to rights of security holders;
8. Bond calls;
9. Defeasances;
10. Release, substitution, or sale of property securing repayment of the securities; and
11. Rating changes.

(b) The Trustee shall, within one (1) Business Day of obtaining actual knowledge of the occurrence of any of the Listed Events, other than items 8 and 9, inform the Agency Disclosure Representative of the occurrence of the event.

(c) Whenever the Agency obtains actual knowledge of the occurrence of a Listed Event, the Agency shall, as soon as practicable, take such steps as are necessary to determine if such event would constitute material information within the meaning of cases decided under the 1934 Act.

(d) If the Agency has determined that the occurrence of a Listed Event is material within the meaning of cases decided under the 1934 Act, the Agency Disclosure Representative shall promptly notify the Trustee in writing. Such notice shall inform the Trustee that the occurrence is being reported by the Agency or instruct the Trustee to report the occurrence pursuant to subsection (f).

(e) If in response to information received from the Trustee under subsection (b), the Agency determines that the Listed Event would not be material within the meaning of cases decided under the 1934 Act, the Agency Disclosure Representative shall so notify the Trustee in writing and instruct the Trustee not to report the occurrence pursuant to subsection (f).

(f) If the Trustee has been instructed by the Agency Disclosure Representative to report the occurrence of a Listed Event, the Trustee shall file a notice of such occurrence with each National Repository or the Municipal Securities Rulemaking Board and each State Repository.

(g) Notice of Listed Events described in subsections (a) (8) and (9) need not be given under this section any earlier than notice of the underlying event is given to Holders of affected Bonds pursuant to the Resolution.

Nothing in this Disclosure Agreement supercedes the Trustee duties under the Resolution with respect to notices of redemption or notices in connection with defeasance of Bonds.

Management Discussion of Items Disclosed in Annual Reports or as Significant Events. If an item required to be disclosed in the Agency's Annual Report, or as a Listed Event, would be misleading without discussion, the Agency shall additionally provide a statement clarifying the disclosure in order that the statement made will not be misleading in the context in which it is made.

Termination of Reporting Obligation. The Agency's obligations under this Disclosure Agreement shall terminate upon the defeasance, prior redemption or payment in full of all of the Series Bonds in accordance with the Resolution.

Substitution of Obligated Person. The Agency shall not transfer its obligations under the Resolution unless the transferee agrees to assume all the obligations of the Agency under this Disclosure Agreement.

Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Agency and the Trustee may amend this Disclosure Agreement (and the Trustee shall agree to any amendment so requested by the Agency), and any provision of this Disclosure Agreement may be waived, if such amendment or waiver is supported by an opinion of counsel experienced in federal securities laws, acceptable to each of the Agency and the Trustee, to the effect that such amendment or waiver would not, in and of itself, cause the undertakings herein to violate the Rule taking into account any subsequent change in or official interpretation of the Rule.

Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Agency from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Agency Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Agency chooses to include any information in any Agency Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the Agency shall have no obligation under this Disclosure Agreement to update such information or include it in any future Agency Annual Report or notice of occurrence of a Listed Event.

Default.

(a) In the event of a failure of the Agency to provide to the Repositories the Agency Annual Report as undertaken by the Agency in this Disclosure Agreement, the Beneficial Owner of any Bonds may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the Agency to comply with its obligations to provide Annual Reports under this Disclosure Agreement.

(b) Notwithstanding the foregoing, no Beneficial Owner shall have the right to challenge the content or adequacy of the information provided pursuant to this Disclosure Agreement by mandamus, specific performance or other equitable proceedings unless Beneficial Owners of Bonds representing at least 25% aggregate principal amount of outstanding Bonds shall join in such proceedings.

(c) A default under this Disclosure Agreement shall not be deemed an Event of Default under the Resolution, and the sole remedy under this Disclosure Agreement in the event of any failure of the Agency to comply with this Disclosure Agreement shall be an action to compel performance.

Alternative Filing Systems. To the extent Agency filings or notices are required to be made to any Repository under the Disclosure Agreement, the Agency reserves the right to use www.DisclosureUSA.org currently maintained by the Municipal Advisory Council of Texas, or any similar system that is acceptable to the Securities and Exchange Commission.

APPENDIX D

SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION

The following statements are brief summaries of certain provisions of the Bond Resolution. Defined terms used in the following summaries are identical in all material respects with those used in the Bond Resolution.

Certain Defined Terms

Agency Certificate: As the case may be, a document signed by an Authorized Officer either (i) attesting to or acknowledging the circumstances, representations or other matters therein stated or set forth or (ii) setting forth matters to be determined by the Agency or an Authorized Officer pursuant to the Bond Resolution or (iii) requesting or directing the Trustee or other party to take action pursuant to the Bond Resolution.

Agency Swap Payment: a payment due to a Swap Counterparty from the Agency pursuant to the applicable Swap Agreement (including, but not limited to, payments in respect of any early termination of such Swap Agreement).

Authorized Officer: The Chairperson, Vice Chairperson, Commissioner or Deputy Commissioner of the Agency or any other person authorized by resolution of the Agency to perform an act or sign a document.

Cash Flow Certificate: A certificate from an Authorized Officer giving effect to the action proposed to be taken and demonstrating that in the current and in each succeeding Fiscal Year in which Bonds are scheduled to be Outstanding that Revenues and other amounts expected to be on deposit in the Funds and Accounts established hereunder or under any Series Resolution (excluding the Insurance Reserve Fund, the Alternative Loan Fund and, except to the extent otherwise provided in a Series Resolution, the Endowment Fund) will be at least equal to all amounts required to be on deposit in order to pay the Debt Service on the Bonds and to maintain the Debt Service Reserve Requirement and Insurance Reserve Requirement; provided that, to the extent specified in a Series Resolution, a Fund or Account (other than those excluded above) shall not be taken into account when preparing such Cash Flow Certificate. The Cash Flow Certificate shall set forth the assumptions upon which the estimates therein are based, which assumptions shall be based upon the Agency's reasonable expectations at the time such Cash Flow Certificate is filed. The Agency may assume in a Cash Flow Certificate that, if Bonds of a series are issued for purposes other than the Financing of Program Loans for the acquisition of owner-occupied housing, amounts to be deposited in or irrevocably appropriated to any Fund or Account established under the Bond Resolution (other than the Alternative Loan Fund or, unless otherwise provided in a Series Resolution, the Endowment Fund) from sources not subject to the lien of the Bond Resolution will be available in amounts and at times sufficient to pay the Debt Service on Outstanding Bonds of such series when due and to maintain the Debt Service Reserve Requirement and Insurance Reserve Requirement, if any, with respect to Outstanding Bonds of such series.

Code: The Internal Revenue Code of 1986, as amended and the applicable temporary, proposed and final Treasury regulations promulgated thereunder or applicable thereto.

Counterparty Swap Payment: a payment due to or received by the Agency from a Swap Counterparty pursuant to a Swap Agreement (including, but not limited to, payments in respect of any early termination of such Swap Agreement) and amounts received by the Agency under any related Swap Counterparty Guarantee.

Debt Service Reserve Requirement: As of any particular date of computation, the sum of amounts established for each Series of Bonds by each Series Resolution.

Finance or *finance:* When used with reference to a Program Obligation, shall be construed to include (i) the making or purchase of such Program Obligation, (ii) the participation by the Agency, either with itself or with others, in the making or purchase thereof, or (iii) the permanent financing of a Program Obligation which has been temporarily financed by the Agency through the issuance of notes or other obligations or otherwise.

Fiscal Year: The period of twelve (12) calendar months commencing on July 1 in any calendar year and ending on June 30 in the following year, or such other twelve (12) month period as may be designated by the Agency by Agency Certificate delivered to the Trustee.

Insurance Reserve Requirement: As of any particular date of computation, the sum of amounts, if any, established for each Series of Bonds by the Series Resolution.

Investment Obligations: Any of the following securities and other investments, if and to the extent the same are at the time legal for the investment of the Agency's moneys:

(a) Direct obligations of, or obligations the timely payment of principal and interest on which are insured or guaranteed by, the United States of America;

(b) Obligations (i) which are backed by the full faith and credit of any state of the United States of America, (ii) of any agency of the United States of America, or (iii) of any public corporation sponsored by the United States of America, provided that, at the time of purchase, such obligations shall not adversely affect the Rating of the Bonds;

(c) Interest-bearing time or demand deposits, certificates of deposit or other similar banking arrangements with any bank, trust company, national banking association or other savings institution (including any Fiduciary) provided that (i) such deposits, certificates and other arrangements are fully insured by the Federal Deposit Insurance Corporation or guaranteed by the State, the proceeds of which insurance are timely available, or (ii) such Depository has combined capital and surplus of at least $75,000,000 and such deposits, certificates and other arrangements are fully secured by obligations described in clause (a) or (b) of this definition, or a combination thereof, at such levels and valuation frequency as shall not adversely affect the Rating of the Bonds or (iii) the deposit of funds with such Depository will not adversely affect the Rating of the Bonds;

(d) Repurchase agreements and reverse repurchase agreements with banks which are members of the Federal Deposit Insurance Corporation, or with government bond dealers reporting to and trading with the Federal Reserve Bank of New York, which agreements are secured by obligations described in the preceding clauses (a) and (b) of this definition;

(e) Shares of (i) an investment company registered under the federal investment company act of 1940, whose shares are registered under the federal securities act of 1933, whose only investments are in securities described in subparagraphs (a) or (b) above, or (ii) a common trust fund established by a national banking association or a bank or trust company organized under the laws of any state with combined capital and surplus of at least $75,000,000, under the supervision and regulation of the Comptroller of the Currency pursuant to 12 C.F.R. 9, or any successor regulation, whose only investments are in securities described in subparagraphs (a) or (b) above;

(f) Any investment contract with any provider as long as such investment contract does not adversely affect the Rating of the Bonds; and

(g) Any other investment that will not adversely affect the Rating of the Bonds.

Lender: To the extent permitted in the Act, any bank or trust company, savings and loan association, savings bank, credit union, insurance company or other financial intermediary (whether or not organized for profit) approved by the Agency or mortgage banker or mortgage broker authorized to deal in mortgage loans insured or guaranteed by an agency of the United States government. Such Lender shall be authorized to do business in the State, and shall have such qualifications as may be established from time to time by rules and regulations of the Agency. For purposes of the Bond Resolution, Lender shall also be deemed to include any federal or state agency, including the Agency, or any political subdivision of the State or agency thereof.

Parity Certificate: An Agency Certificate, giving effect to the action proposed to be taken in connection with the filing thereof, showing that (A) the sum of (i) the moneys, Investment Obligations and Cash Equivalents then credited to the Acquisition Accounts, the Revenue Fund, the Bond Fund Principal Account, the Bond Fund Interest Account, and the Debt Service Reserve Fund, (ii) the unpaid principal amount of all Program Obligations credited to the Acquisition Accounts (other than any Acquisition Account funded with moneys transferred from the Alternative Loan Fund or Endowment Fund), and (iii) any other moneys, Investment Obligations and Cash Equivalents and the unpaid principal amount of all Program Obligations otherwise specifically pledged to the payment of Outstanding Bonds by a Series Resolution, exceeds (B) an amount equal to 103% of the principal amount of Outstanding Bonds of all Series.

Principal Requirement: As of any particular date of calculation with respect to Bonds Outstanding on that date, the amount of money equal to any unpaid Principal Installment then due plus the Principal Installment to become due on each Series of Bonds on the next respective Principal Installment Date within the next succeeding six months.

Program: The program for the financing of Program Obligations for Housing established by the Agency pursuant to the Act, as the same may be amended from time to time, and the Bond Resolution and for financing Other Obligations.

Program Loan: A loan for Housing secured in such manner as the Agency may specify in the applicable Series Resolution for Program Loans to be made from the proceeds of a Series of Bonds.

Program Obligation: Any Program Loan or Program Security acquired by the Agency by the expenditure of amounts in an Acquisition Account.

Program Security: An obligation representing an undivided interest in a pool of Program Loans, to the extent the payments to be made on such obligation are guaranteed or insured by a Federal Mortgage Agency.

Rating: with respect to any Series of Bonds, the rating issued by a Rating Agency in force immediately prior to the proposed action to be taken by the Agency under the Bond Resolution, and an action which does not "impair" the Rating with respect to any Series of Bonds shall be an action which will not cause the Rating Agency to lower or withdraw the rating it has assigned to the Series of Bonds.

Rating Agency: any nationally recognized entity which, upon the request of the Agency, has issued a credit rating on any Series of Bonds issued pursuant to the Bond Resolution.

Revenues: With respect to the Outstanding Bonds, all payments, proceeds, rents, premiums, penalties, charges and other cash income received by the Agency from or on account of any Program Obligation (including scheduled, delinquent and advance payments of, and any net insurance or guaranty proceeds with respect to, principal and interest on any Program Obligation or the net operating income or net proceeds of sale of any property acquired thereunder) (exclusive, however, of Program Obligations, if any, credited to the Endowment Fund), any Counterparty Swap Payments received from any Swap Counterparty pursuant to a Swap Agreement, any amounts deposited in or irrevocably appropriated to any Fund or Account established under the Bond Resolution (other than the Alternative Loan Fund or, except as otherwise provided in a Series Resolution, the Endowment Fund) from sources not subject to the lien of the Bond Resolution, and all interest earned or gain realized in excess of losses as a result of the investment of the amount in any Fund or Account established under the Bond Resolution (other than the Alternative Loan Fund or, except as otherwise provided in a Series Resolution, the Endowment Fund), but excludes (i) any amount retained by a servicer (including the Agency) of any Program Obligation as compensation for services rendered in connection with such Program Obligation, (ii) any payments for the guaranty or insurance of any Program Obligation, (iii) any payments of taxes, assessments or similar charges or premiums or other charges for fire or other hazard insurance (and any escrow payments in connection therewith) called for by or in connection with any Program Obligation, (iv) amounts payable with respect to a Program Obligation which represent a return on amounts financed by the Agency or by other persons pursuant to a participation, forbearance or other arrangement from sources other than proceeds of Bonds or other amounts held hereunder and (v) to the extent such items do not exceed the income derived therefrom, payments or charges constituting expenses of managing and maintaining property acquired pursuant to a Program Loan.

Swap Agreement: with respect to any Bonds, an interest rate exchange agreement between the Agency and a Swap Counterparty, as amended or supplemented, or other interest rate hedge agreement between the Agency and a Swap Counterparty, as amended or supplemented, for the purpose of converting, in whole or in part, (i) the Agency's fixed interest rate liability on all or a portion of any Bonds to a variable rate liability, (ii) the Agency's variable rate liability on all or a portion of any Bonds to a fixed rate liability or (iii) the Agency's variable rate liability on all or a portion of any Bonds to a different variable rate liability.

Swap Counterparty: any Person with whom the Agency shall from time to time enter into a Swap Agreement, as specified in a Series Resolution.

Swap Counterparty Guarantee: a guarantee in favor of the Agency given in connection with the execution and delivery of a Swap Agreement, as specified in a Series Resolution.

Series Accounts

Unless otherwise provided in a Series Resolution, the Trustee shall establish within each Fund under the Bond Resolution (other than the Endowment Fund and the Alternative Loan Fund), a separate Series Account for each Series of Bonds. The proceeds of a particular Series of Bonds, other amounts made available by the Agency in the Series Resolution or otherwise relating to a particular Series of Bonds and the Revenues relating to a particular Series of Bonds (including the payments on Program Obligations acquired with the proceeds of a particular Series of Bonds or the payments on any other collateral pledged to a particular Series of Bonds and the earnings on investments of any of said proceeds, funds and amounts) shall be deposited or credited to the separate Series Accounts established for that particular Series of Bonds. Where required to assure compliance with the covenants of the Bond Resolution and any Series Resolution, withdrawals from Series Accounts established in connection with a particular Series of Bonds may be made and used (including for purposes of redemption) for any other Series of Bonds. For purposes of investment, the Trustee, may, or shall at the direction of the Agency, consolidate the Series Accounts required to be established in a particular Fund so long as adequate records are maintained as to the amounts held in each such Fund allocable to each Series of Bonds. In addition to the Funds and Accounts established under the Bond Resolution, the Trustee may from time to time, establish, maintain, close and reestablish such accounts and subaccounts as may be requested by the Agency for convenience of administration of the Program and as shall not be inconsistent with the provisions of the Bond Resolution.

Cost of Issuance Accounts

Each Series Resolution authorizing the issuance of a Series of Bonds may, but is not required to, provide for a separate Cost of Issuance Account to be held by the Trustee. Moneys in each such Cost of Issuance Account shall be expended for Costs of Issuance of such Series of Bonds and for no other purpose upon receipt by the Trustee of a requisition signed by an Authorized Officer stating the amount and purpose of any such payment. Any amounts in a Cost of Issuance Account remaining therein upon payment of all Costs of Issuance for such Series of Bonds shall (i) if not proceeds of Bonds, be transferred to the Revenue Fund and (ii) if sale proceeds, investment proceeds or transferred proceeds of Bonds, be transferred to any one or more of the Acquisition Accounts or the Bond Redemption Fund, upon receipt by the Trustee of a Certificate of the Agency stating that such moneys are no longer needed for the payment of Costs of Issuance whereupon such Account shall be closed. Interest and other income derived from the investment or deposit of each such Cost of Issuance Account shall be transferred by the Trustee upon receipt thereof to the Revenue Fund.

Acquisition Accounts

Each Series Resolution authorizing the issuance of a Series of Bonds shall, unless such Bonds are Refunding Bonds for which no such account is necessary, establish a separate Acquisition Account to be held by the Trustee. There shall be deposited from time to time in each Acquisition Account (i) any proceeds of Bonds or other amounts required to be deposited therein pursuant to the Bond Resolution or the applicable Series Resolution and (ii) any other amounts determined by the Agency to be deposited therein from time to time.

Except as otherwise permitted or required to be transferred to other Funds and Accounts, amounts in an Acquisition Account shall be expended only to Finance Program Obligations. All Program Obligations Financed by application of amounts in an Acquisition Account shall be credited to such Acquisition Account or, if a Series

Resolution so provides, to any one or more subfunds in the Endowment Fund. No Program Loan shall be Financed unless the requirements of the applicable Series Resolution have been met, and no Program Security shall be Financed unless the Program Security is registered in the name of the Trustee or is registered in the name of the Agency and delivered to the Trustee with a written assignment thereof to the Trustee pursuant to the Bond Resolution from and after the date such Program Security is Financed hereunder. In addition, no Program Security shall be Financed unless such Program Security represents a pass through or participation interest in a pool of Program Loans and provides for a guaranty of all payments to be made to the Agency thereunder by a Federal Mortgage Agency.

The Trustee shall pay out and permit the withdrawal of amounts on deposit in any Acquisition Account at any time for the purpose of making payments pursuant to the Bond Resolution, but only upon receipt of the following documents prior to any proposed withdrawal:

(1) an Agency Certificate setting forth the amount to be paid, the person persons to whom such payment is to be made (which may be or include the Agency) and, in reasonable detail, the purpose or purposes of such withdrawal; and

(2) an Agency Certificate stating that the amount to be withdrawn from such Acquisition Account pursuant to such requisition is a proper charge thereon and, if such requisition is made to Finance the acquisition of Program Obligations, that (i) the terms of such Program Obligations conform to the description of the Program Obligations to be Financed from such amount as provided to the Trustee pursuant to the terms of the Bond Resolution, and (ii) such Program Obligations otherwise comply with the provisions of the Bond Resolution.

At any time the Agency, by Agency Certificate, may direct the Trustee to transfer amounts in an Acquisition Account into the Bond Fund Principal Account or Bond Fund Interest Account, as appropriate, to pay principal or sinking fund installments of and interest on the related Series of Bonds, or into the appropriate account in the Debt Service Reserve Fund or Insurance Reserve Fund, which Request shall state that such transfer is appropriate to meet the requirements of said Fund.

The interest earned and other income derived from the investment or deposit of each Acquisition Account may be transferred to the appropriate account in the Revenue Fund for the related Series of Bonds by the Trustee upon receipt thereof to the extent that such amounts exceed any losses realized by investment of deposits in such Acquisition Account or may be retained in the Acquisition Account for the Financing of additional Program Obligations, as directed by Agency Certificate.

All amounts deposited into an Acquisition Account shall be disbursed in the manner provided in the Bond Resolution or the Agency may, by Agency Certificate, direct the Trustee to transfer any amounts from the Acquisition Account to the Bond Redemption Fund to be used for the redemption of Bonds of the related Series; provided, however, that (i) the Agency Certificate shall specify the maturities, the principal amounts of each maturity, and the Series of Bonds to be redeemed (including any credits against sinking fund installments on any Term Bonds to be redeemed) and (ii) in the case of any selection method of Bonds for an optional or special redemption different from the selection method assumed in the most recently filed Cash Flow Certificate, the Agency shall file an updated Cash Flow Certificate with the Trustee.

The Agency may establish temporary subaccounts within an Acquisition Account for the collection and custody of fees paid by Lenders or other persons in connection with the reservation of funds in the Acquisition Account for use in Financing Program Obligations to be originated by such Lenders or other persons. To the extent that the Agency's agreements with such Lenders or other persons provide for the refund of any such fees (or portions thereof), amounts may be withdrawn from any such subaccount or the Acquisition Account in accordance with such agreements, and any amounts not required to be so applied may, pursuant to an Agency Certificate, be applied to any other purpose of the Acquisition Account as provided in the Bond Resolution.

Revenue Fund

The Agency shall cause all Revenues to be deposited promptly with a Depository and to be transmitted regularly to the Trustee. Unless otherwise provided in the Bond Resolution, all such amounts shall be deposited in the Revenue Fund. There shall also be deposited in the Revenue Fund any other amounts required to be deposited therein pursuant to the Bond Resolution or the Series Resolution or other resolution of the Agency.

The Trustee shall withdraw from any money in the Revenue Fund and credit to each of the following Funds and Accounts, or pay to the Person specified, the amount indicated in the following tabulation, at the times indicated in the following tabulation:

(1) on or before the applicable Interest Payment Date, to the Bond Fund Interest Account the amount needed, taking into account any balance then on deposit therein, to increase the balance therein to the Interest Requirement;

(2) on or before the applicable Principal Installment Date, to the Bond Fund Principal Account the amount, needed, taking into account any balance then on deposit therein, to increase the amount therein to the Principal Requirement;

(3) on any date, assuming any prior transfers required pursuant to subsections (1) and (2) above have been made, to the Debt Service Reserve Fund, the amount, if any, needed to increase the amount therein to the Debt Service Reserve Requirement;

(4) on any date, assuming any prior transfers required pursuant to subsections (1), (2) and (3) above have been made, to the Insurance Reserve Fund, the amount, if any, needed to increase the amount therein to the Insurance Reserve Requirement;

(5) unless otherwise expressly provided in the Series Resolution in respect of a series of Bonds to which the Swap Agreement relates in whole or in part, on or before the applicable due dates, assuming any prior transfers required pursuant to subsections (1), (2), (3) and (4) above have been made, to any Swap Counterparty, the Agency Swap Payments due from time to time pursuant to a Swap Agreement; and

(6) to the extent not transferred pursuant to the preceding subsections, the balance shall be held in the Revenue Fund until and unless directed by Agency Certificate to be transferred and utilized as set forth elsewhere in this section.

At such periodic intervals as the Agency, by Agency Certificate, shall direct, the Trustee shall withdraw from the Revenue Fund and transfer to the United States of America such amounts as are necessary to comply with the Code, including particularly the arbitrage rebate requirements of Section 148 thereof.

Amounts credited to the Revenue Fund shall be transferred to the Bond Redemption Fund on or before the designated Redemption Date to be used for the purchase or redemption of Bonds pursuant to the Bond Resolution and the terms of any related Series Resolution upon the filing with the Trustee of (i) an Agency Certificate specifying the maturities, the principal amounts of each maturity, and the Series of Bonds to be redeemed (including any credits against sinking fund installments on any Term Bonds to be redeemed) and (ii) in the case of any selection method of Bonds for an optional or special redemption different from the selection method assumed in the most recently filed Cash Flow Certificate, a Cash Flow Certificate.

Amounts credited to the Revenue Fund may be transferred to an existing Acquisition Account or a new Acquisition Account to be established to be used to acquire Program Obligations upon filing with the Trustee of (i) an Agency Certificate specifying the amount to be so transferred and either specifying the existing Acquisition Account to which the funds are to be deposited or directing the establishment of a new Acquisition Account for the deposit of the funds and providing the information relating to the new Acquisition Account required by the Bond Resolution and (ii) a Cash Flow Certificate.

Amounts credited to the Revenue Fund, as directed by an Agency Certificate, shall be released to the Agency for the payment of Program Expenses or the establishment of reserves therefor in an amount needed or required to pay reasonable and necessary Program Expenses; provided that if the amount to be released exceeds the amount assumed in the most recently filed Cash Flow Certificate, the Agency shall file a new Cash Flow Certificate with the Trustee.

Amounts credited to the Revenue Fund, except Program Expenses, may be released to the Agency free and clear of the lien of the Bond Resolution, for deposit in the Agency's General Reserve Account or deposit in the Alternative Loan Fund, or transferred to the Endowment Fund, upon the filing with the Trustee of (i) an Agency Certificate directing the same, (ii) a Cash Flow Certificate and (iii) a Parity Certificate.

Any investment earnings on moneys held in the Revenue Fund shall be retained therein.

Bond Fund Interest Account and Bond Fund Principal Account

The Trustee shall withdraw from the Bond Fund Interest Account, on or immediately prior to each Interest Payment Date of the Bonds, an amount equal to the unpaid interest due on the Bonds on such Interest Payment Date, and shall cause the same to be applied to the payment of said interest when due and is authorized to transmit the same to any Paying Agents who shall apply the same to such payment.

If the withdrawals required with respect to the same and every prior date shall have been made, the Trustee shall withdraw from the Bond Fund Principal Account, on or immediately prior to each Principal Installment Date, an amount equal to the principal amount of the Outstanding Bonds, if any, maturing on or before said Principal Installment Date and shall cause the same to be applied to the payment of the principal amount of said Bonds when due and is authorized to transmit the same to any Paying Agents who shall apply the same to such payment.

Any amount at any time held in the Bond Fund Interest Account or Bond Fund Principal Account in excess of the Interest Requirement or Principal Requirement may be transferred by the Trustee to the Revenue Fund, if so directed by Agency Certificate, and otherwise shall be retained in the Bond Fund Interest Account or Bond Fund Principal Account, as the case may be.

The interest earned or other income derived from the investment of moneys in the Bond Fund Interest Account and Bond Fund Principal Account shall be transferred by the Trustee to the Revenue Fund (unless the Trustee is directed by Agency Certificate to retain such amounts in the Bond Fund Interest Account or Bond Fund Principal Account, as the case may be).

Bond Redemption Fund

Subject to the provisions of the respective Series of Bonds and to the provisions of the respective Series Resolutions authorizing the issuance thereof, all amounts deposited in the Bond Redemption Fund shall be applied to the purchase or redemption of Bonds, including payment of any redemption premium, on the applicable Redemption Date; provided, however, that in the event the Agency has issued refunding obligations for the purpose of redeeming Bonds of a Series accordance with the Bond Resolution, upon receipt of an Agency Certificate directing such transfer and confirmation by the Trustee that provisions have been made for wiring proceeds of such refunding obligations to the Trustee, the Trustee, immediately on the date of such confirmation, shall transfer moneys in the Bond Redemption Fund in an amount equal to the amount of refunding proceeds received by the Trustee to the funds or accounts specified in the refunding resolution as specified in the Agency Certificate. The Redemption Price of Bonds subject to redemption by operation of the Bond Redemption Fund in the Bond Fund shall be the price set forth in the applicable Series Resolution. Upon receipt of an Agency Certificate directing the same, the Trustee shall transfer at the time of purchase or no more than forty-five (45) calendar days prior to such redemption to the Bond Redemption Fund in the Bond Fund from the Debt Service Reserve Fund or Insurance Reserve Fund the amount stated in such Request, which amount shall be no greater than the amount by which the Debt Service Reserve Requirement or Insurance Reserve Requirement will decrease due to the purchase or redemption of Bonds. Subject to the provisions of the Bond Resolution or of any Series Resolution authorizing the issuance of Bonds, requiring the application thereof to the purchase or redemption of any particular Bonds, the Trustee shall apply any amounts deposited in the Bond Redemption Fund to the purchase or redemption of Bonds at the times and in the manner provided in the Bond Resolution. Amounts on deposit in the Bond Redemption Fund for the payment, purchase or redemption of any particular Bonds in accordance with the provisions of any Series Resolution authorizing the issuance of Refunding Bonds shall be segregated and shall be identified as such on the records of the Trustee.

Any earnings derived from the investment of amounts deposited in the Bond Redemption Fund pursuant to the issuance and delivery of Refunding Bonds, to the extent required to provide amounts sufficient for the payment or redemption of Bonds in accordance with the conditions for issuance of Refunding Bonds set forth in the Resolution, be deposited in the Bond Redemption Fund. All other interest earned or other income derived from the investment or deposit or moneys in each Bond Redemption Fund in the Bond Fund shall be transferred by the Trustee upon receipt thereof to the Revenue Fund.

Endowment Fund

The Trustee shall establish and maintain three subfunds within the Endowment Fund entitled the "Home Improvement Endowment Fund," the "Homeownership Endowment Fund" and the "Multifamily Housing Endowment Fund." Each such subfund may be used to make or purchase loans, make grants, and provide other subsidies and assistance, upon such terms as the Agency may determine, with respect to the type of housing and housing improvements appropriate to each subfund. Upon receipt of an Agency Certificate, the Trustee shall (i) deposit in a designated subfund of the Endowment Fund any funds, securities, Cash Equivalents, loans or other property provided by the Agency and not otherwise pledged under the Bond Resolution or (ii) withdraw from a designated subfund and deposit in another designated subfund of the Endowment Fund any funds, securities, Cash Equivalents, loans or other property specified in such Agency Certificate, or (iii) withdraw from a designated subfund or subfunds of the Endowment Fund for release to the Agency free and clear of the lien of the Bond Resolution, for deposit in the Agency's General Reserve Account or deposit in the Alternative Loan Fund, any funds, securities, Cash Equivalents, loans or other property specified in such Agency Certificate; subject, however, to any covenants or agreements made by the Agency in a Series Resolution.

Any moneys held in a subfund of the Endowment Fund may be invested or reinvested in such securities, loans or other investment as may be directed by an Authorized Officer, which may include Investment Obligations, Program Obligations or Other Obligations but is not restricted thereto. Any interest or income earned with respect to any said securities, loans or other property shall likewise be retained in the appropriate subfund of the Endowment Fund.

Subject to programmatic uses permitted by the Bond Resolution, funds, securities, Cash Equivalents, loans and other property held from time to time in the Endowment Fund are available for the payment of the principal of, Redemption Price and interest on Bonds when due. Amounts on deposit in the Endowment Fund shall be used to make up deficiencies in the Bond Fund Interest Account, Bond Fund Principal Account, Bond Redemption Fund, Debt Service Reserve Fund and Insurance Reserve Fund as specified in the Bond Resolution. The Agency has not covenanted in the Bond Resolution to maintain any minimum balance in the Endowment Fund and there is no assurance any funds will be available therein in the event of a deficiency in any other Funds or Accounts.

Debt Service Reserve Fund

There shall be deposited in the Debt Service Reserve Fund all amounts required to be deposited therein by the Bond Resolution or any Series Resolution and any other amounts available therefor and determined by the Agency to be deposited therein.

If on any Bond Payment Date the amount in the Bond Fund Interest Account, Bond Fund Principal Account or Bond Redemption Fund, as appropriate, shall be less than the amount required for the payment of the Principal Installments and interest due on the Outstanding Bonds on such date, the Trustee shall apply amounts from the Debt Service Reserve Fund to the extent required pursuant to the Bond Resolution.

If, concurrently with any allocation from the Revenue Fund pursuant to the Bond Resolution, or, on any date upon which a Series Resolution shall be delivered to the Trustee, the amount on deposit in the Debt Service Reserve Fund shall be in excess of the Debt Service Reserve Requirement, the Trustee shall, if so directed in writing pursuant to an Agency Certificate, (1) transfer the amount of such excess which is Revenues to any one or more of the Acquisition Accounts, the Bond Fund Interest Account, the Bond Fund Principal Account, the Bond Redemption Fund or the Revenue Fund as so directed and (2) transfer the amount of such excess which is sale proceeds, investment proceeds or transferred proceeds of Bonds to any one or more of the Acquisition Accounts or the Bond Redemption Fund.

Subject to any limitation provided in the Act, a Series Resolution may provide that the Debt Service Reserve Requirement may be funded through Cash Equivalents. For purposes of determining whether such

Requirement has been met, the amount in the Debt Service Reserve Fund so funded shall be deemed to include any amount payable under such Cash Equivalents on the demand of the Trustee.

Any earnings derived from the investment of amounts deposited in the Debt Service Reserve Fund shall, to the extent the balance therein is less than the Debt Service Reserve Requirement, be retained in the Debt Service Reserve Fund and otherwise shall be transferred by the Trustee upon receipt thereof to the Revenue Fund.

In order better to secure the Bonds and to make them more marketable and to maintain in the Debt Service Reserve Fund an amount equal to the Debt Service Reserve Requirement, and in accordance with the provisions of Section 22, Subdivision 3 of the Act, the Agency shall cause the Chair annually, on or before December 1 of each year, to make and deliver to the Governor of the State the Chair's certificate stating the sum, if any, that is necessary to restore the Debt Service Reserve Fund to an amount equal to the Debt Service Reserve Requirement. All money received by the Agency from the State in accordance with the provisions of Section 22, Subdivision 3 of the Act pursuant to any such certification shall be paid to the Trustee for deposit in and credit to the Debt Service Reserve Fund.

Notwithstanding the provisions of the foregoing paragraph, prior to causing the Chair to execute and deliver the certificate specified therein, the Agency shall first transfer to the Debt Service Reserve Fund from the Endowment Fund such amount as may be available therein to reduce or eliminate, if possible, the deficiency in the Debt Service Reserve Fund.

Insurance Reserve Fund

The Insurance Reserve Requirement, if any, received by the Trustee upon the issuance of a Series of Bonds shall be held in the Insurance Reserve Fund and used for the purpose of paying that portion of the claim for loss with respect to any Program Loan in default, made or purchased from an Acquisition Account, which is not paid by any public or private insuring agency. The Agency shall promptly furnish to the Trustee an Agency Certificate stating the amount of the loss, when determinable, and the Trustee shall forthwith transfer this amount to the extent available from the Insurance Reserve Fund to the Revenue Fund.

If on any Bond Payment Date the amount in the Bond Fund Interest Account, Bond Fund Principal Account or Bond Redemption Fund, as appropriate, shall be less than the amount required for the payment of the Principal Installments and interest due on the Outstanding Bonds on such date, the Trustee shall apply amounts from the Insurance Reserve Fund to the extent required pursuant to the Bond Resolution.

If, concurrently with any allocation from the Revenue Fund pursuant to the Bond Resolution, or, on any date upon which a Series Resolution shall be delivered to the Trustee, the amount on deposit in the Insurance Reserve Fund shall be in excess of the Insurance Reserve Requirement, the Trustee shall, if so directed in writing pursuant to an Agency Certificate, (1) transfer the amount of such excess which is Revenues to any one or more of the Acquisition Accounts, the Bond Fund Interest Account, the Bond Fund Principal Account, the Bond Redemption Fund or the Revenue Fund as so directed and (2) transfer the amount of such excess which is sale proceeds, investment proceeds or transferred proceeds of Bonds to any one or more of the Acquisition Accounts or the Bond Redemption Fund.

Subject to any limitation provided in the Act, a Series Resolution may provide that the Insurance Reserve Requirement may be funded through Cash Equivalents. For purposes of determining whether such Requirement has been met, the amount in the Insurance Reserve Fund so funded shall be deemed to include any amount payable under such Cash Equivalents on the demand of the Trustee.

Any earnings derived from the investment of amounts deposited in the Insurance Reserve Fund shall, to the extent the balance therein is less than the Insurance Reserve Requirement, be retained in the Insurance Reserve Fund and otherwise shall be transferred by the Trustee upon receipt thereof to the Revenue Fund.

If at any time the amount in the Insurance Reserve Fund is less than the Insurance Reserve Requirement, and is not restored from available Revenues in accordance with the Bond Resolution, or available funds in the General Reserve Account or Alternative Loan Fund supplied by the Agency upon notice of the deficiency from the

Trustee, the deficiency shall be supplied by the Trustee by the transfer of funds available from the Endowment Fund.

Alternative Loan Fund

The Trustee shall maintain the Alternative Loan Fund created within the Bond Resolution and shall deposit therein any amounts authorized by an Agency Certificate to be withdrawn from the Revenue Fund in accordance with the Resolution and any other amounts provided by the Agency for deposit therein. Amounts on deposit in the Alternative Loan Fund shall be free and clear of any lien or pledge created by the Bond Resolution, and free and clear of any restrictions on the investment of funds set forth in the Bond Resolution. Amounts deposited into the Alternative Loan Fund may be used for any lawful purpose for which the Agency may from time to time use funds on deposit in its General Reserve Account and, pending such use, may be invested in any securities or investments permissible generally for the investment of funds of the Agency as specified by Agency Certificate. By Agency Certificate furnished to the Trustee, the Agency may at any time appropriate any funds and investments on deposit in the Alternative Loan Fund to any Account or Fund created pursuant to the Bond Resolution (in which case such funds and investments shall become subject to the lien and pledge thereof) or may direct that such funds and investments be transferred to the Agency's General Reserve Account or to any other fund or account established pursuant to resolution of the Agency.

The Agency, by Agency Certificate, may request the Trustee to establish one or more subaccounts in the Alternative Loan Fund to be restricted to such uses, and used in accordance with such terms, as are specified in the Agency Certificate.

Any earnings derived from the investment of amounts deposited in the Alternative Loan Fund shall be retained therein unless otherwise directed by Agency Certificate.

Investment of Moneys Held by the Trustee

Moneys held by the Trustee for the credit of any Account or Fund established under the Bond Resolution shall be invested by the Trustee as directed by the Agency to the fullest extent practicable and reasonable in Investment Obligations which shall mature or be redeemable at the option of the Owner prior to the respective dates when the moneys held for the credit of such Fund or Account will be required for the purposes intended. Unless otherwise confirmed in writing, an account statement delivered by the Trustee to the Agency shall be deemed written confirmation by the Agency that investment transactions identified therein accurately reflect the investment directions given to the Trustee pursuant to the terms of the Bond Resolution, unless the Agency notifies the Trustee in writing to the contrary within forty five (45) days of the date of such settlement.

The Investment Obligations purchased shall be held by the Trustee and shall be deemed at all times to be part of such Fund or Account or combination thereof, and the Trustee shall inform the Agency of the detail of all such investments. The Trustee shall sell at the best price obtainable, or present for redemption, any Investment Obligations purchased by it as an investment whenever it shall be necessary to provide moneys to meet any payment from a Fund or Account. The Trustee shall not be liable for any depreciation of the value of any investment on the redemption, sale and maturity thereof, and in the absence of any direction from the Agency, the Trustee shall not be required to invest such funds.

The Trustee may purchase from or sell to itself or an affiliate, as principal or agent, any Investment Obligations. The Trustee shall advise the Agency in writing monthly, unless otherwise directed by Agency Certificate, of all investments held for the credit of each Fund and Account in its custody under the provisions of the Bond Resolution as of the end of the preceding month.

In computing the amount in any Fund or Account, Investment Obligations shall be valued at par or, if purchased at a price other than par, at their Amortized Value, in either event exclusive of accrued interest purchased.

Except as otherwise specifically provided in the Bond Resolution or in a Series Resolution, the income or interest earned, or gain, shall be transferred by the Trustee upon receipt thereof to the appropriate Revenue Account.

The Trustee shall not be liable or responsible for the making of any investment authorized by the Bond Resolution in the manner provided in the Bond Resolution or for any loss resulting from any such investment so made, except for its own negligence.

Cash Flow Certificates

The Agency is required to file a Cash Flow Certificate (i) at least once within any 12 month period and (ii) at such other times as may be required pursuant to the provisions of the Bond Resolution or of any Series Resolution authorizing the issuance of Bonds of a Series then Outstanding.

Creation of Liens

The Agency shall not issue any bonds or other evidences of indebtedness, other than the Bonds, secured by a pledge of Revenues or of the moneys, securities, rights and interests pledged or held or set aside by the Agency or by any Fiduciary under the Bond Resolution and shall not create or cause to be created any lien or charge on any pledged Revenues or such moneys, securities, rights or interests: provided, however, that nothing in the Bond Resolution shall prevent the Agency from issuing (i) evidences of indebtedness secured by a pledge of Revenues to be derived after any pledge of Revenues provided in the Bond Resolution shall be discharged and satisfied as provided in the Bond Resolution, or (ii) notes or bonds of the Agency not secured under the Bond Resolution; and provided, further, that, to secure its obligation to make Agency Swap Payments to a Swap Counterparty pursuant to a Swap Agreement, the Agency may grant to the Swap Counterparty a subordinate and junior pledge and security interest (subordinate and junior to the pledge and security interest granted to the Bondholders) in all or any of the collateral pledged to the payment of the Bonds under the Bond Resolution.

Defeasance of Bonds

Bonds or interest installments for the payment or redemption of which moneys shall have been set aside and shall be held in trust by the Trustee or any one or more of the alternate Paying Agents (through deposit by the Agency of moneys for such payment or redemption or otherwise) at the maturity or Redemption Date thereof shall be deemed to have been paid within the meaning and with the effect expressed in the Bond Resolution. All Outstanding Bonds of any Series shall be deemed prior to the maturity or Redemption Date thereof to have been paid within the meaning and with the effect expressed in the Bond Resolution if (i) in case any of said Bonds are to be redeemed on any date prior to their maturity, the Agency shall have given to the Trustee in form satisfactory to it irrevocable instructions to mail notice of redemption of such Bonds on said date; (ii) there shall have been deposited with the Trustee either moneys in an amount sufficient, or Government Obligations the principal of and the interest on which when due will provide moneys in an amount that, together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient to pay when due the principal or Redemption Price of and interest due and to become due on said Bonds on and prior to the Redemption Date or maturity date thereof, as the case may be. Neither Government Obligations nor moneys deposited with the Trustee pursuant to this section nor principal or interest payments on any such Government Obligations shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal or Redemption Price, if applicable, of and interest on said Bonds.

Events of Default

Each of the following events shall constitute an event of default under the Bond Resolution: (1) the Agency shall fail to pay any Principal Installment or the Redemption Price of any Bond when and as the same shall become due and payable, whether at maturity or by call for redemption or otherwise, or shall fail to pay the purchase price of any Bond tendered or deemed tendered for purchase on the date established therefor; or (2) the Agency shall fail to pay any installment of interest on any Bond when and as the same shall become due and payable; or (3) the Agency shall fail to perform or observe any other covenant, agreement or condition on its part contained in the Bond Resolution or in the Bonds, and such failure shall continue for a period of 60 days after written notice thereof to the Agency by the Trustee or to the Agency and to the Trustee by the Bondowners of not less than a majority in principal amount of the Bonds Outstanding; or (4) the Agency shall file a petition seeking a composition of indebtedness under the Federal bankruptcy laws, or under any other applicable law or statute of the United States of America or of the State; or (5) the State limits or alters the rights of the Agency pursuant to the Act, as in force on the date of adoption of the Bond Resolution, to fulfill the terms of any agreements made with the Owners of the Bonds or in any way impaired the rights and remedies of Owners of Bonds while any Bonds are Outstanding.

Acceleration; Annulment of Acceleration

Upon the occurrence of an Event of Default, the Trustee may and, upon the written request of the Bondowners of not less than 25% in aggregate principal amount of Bonds Outstanding shall, give 30 days' notice in writing to the Agency of its intention to declare all Bonds Outstanding immediately due and payable; provided, however, that the Trustee may not make any such declaration with respect to an Event of Default under item (3) above unless (1) the Trustee has received a written request to do so from 100% of the Owners of all Outstanding Bonds or (2) there are sufficient moneys available in the Funds and Accounts to pay the principal and interest on the Bonds upon such declaration. At the end of such 30-day period the Trustee may, and upon such written request of Bondowners of not less than 25% in aggregate principal amount of Bonds Outstanding shall, by notice in writing to the Agency, declare all Bonds Outstanding immediately due and payable and such Bonds shall become and be immediately due and payable, anything in the Bonds or in the Bond Resolution to the contrary notwithstanding. In such event, there shall be due and payable on the Bonds an amount equal to the total principal amount of all such Bonds, plus all interest accrued thereon and which will accrue thereon to the date of payment.

At any time after the principal of the Bonds shall have been so declared to be due and payable and before the entry of final judgment or decree in any suit, action or proceeding instituted on account of such default, or before the completion of the enforcement of any other remedy under the Bond Resolution, the Trustee may annul such declaration and its consequences with respect to any Bonds not then due by their terms if (1) moneys shall have been deposited in the Bond Fund sufficient to pay all matured installments of interest and principal or Redemption Price or purchase price (other than principal then due only because of such declaration) of all Outstanding Bonds; (2) moneys shall have been deposited with the Trustee sufficient to pay the charges, compensation, expenses, disbursements, advances and liabilities of the Trustee and any Paying Agents; (3) all other amounts then payable by the Agency under the Bond Resolution shall have been paid or a sum sufficient to pay the same shall have been deposited with the Trustee; and (4) every Event of Default known to the Trustee (other than a default in the payment of the principal of such Bonds then due only because of such declaration) shall have been remedied to the satisfaction of the Trustee. No such annulment shall extend to or affect any subsequent Default or impair any right consequent thereon.

If the Agency shall fail to pay any Principal Installment, the Redemption Price, the purchase price or any installment of interest on any Bond when and as the same shall become due and payable, the Trustee shall, within 30 days, give written notice thereof by first-class mail to the Bondowners, shown by the registry of Bondowners required to be maintained at the office of the Trustee.

Additional Remedies and Enforcement of Remedies

Upon the occurrence and continuance of any Event of Default, the Trustee may, and upon the written request of the Bondowners of not less than a majority in aggregate principal amount of the Bonds Outstanding, together with indemnification of the Trustee to its satisfaction therefor, shall, proceed forthwith to protect and enforce its rights and the rights of the Bondowners under the Act, the Bonds and the Bond Resolution by such suits, actions or proceedings as the Trustee, being advised by counsel, shall deem expedient, including but not limited to: (1) suit upon all or any part of the Bonds; (2) suit to require the Agency to account as if it were the trustee of an express trust for the Bondowners; (3) suit to enjoin any acts or things which may be unlawful or in violation of the rights of the Bondowners; (4) enforcement of any other right of the Bondowners conferred by law or by the Bond Resolution; and (5) in the event that all Bonds are declared due and payable, by selling Program Obligations.

Regardless of the happening of an Event of Default, the Trustee, if requested in writing by the Bondowners of not less than a majority in aggregate principal amount of the Bonds then Outstanding, shall, upon being indemnified to its satisfaction therefor, institute and maintain such suits and proceedings as it may be advised shall be necessary or expedient (i) to prevent any impairment of the security under the Bond Resolution by any acts which may be unlawful or in violation of the Bond Resolution, or (ii) to preserve or protect the interests of the Bondowners, provided that such request is in accordance with law and the provisions of the Bond Resolution.

Amendments

Amendments of the Resolutions may be made by a Supplemental Resolution.

Supplemental Resolutions may become effective upon filing with the Trustee if they add limitations and restrictions in addition to the limitations and restrictions contained in the Bond Resolution or Series Resolution, add covenants and agreements of the Agency in the Bond Resolution or Series Resolution that are not contrary to or inconsistent with the Bond Resolution or the applicable Series Resolution in effect at the time, add limitations and restrictions to be observed by the Agency, surrender any right, power or privilege reserved to or conferred upon the Agency or are reasonably necessary to preserve the tax exemption of Outstanding Bonds or permit the issuance of additional tax exempt Bonds.

Supplemental Resolutions become effective upon consent of the Trustee for the following purposes:

(1) To cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in the Bond Resolution or any Series Resolution;

(2) To insert such provisions clarifying matters or questions arising under the Bond Resolution or any Series Resolution as are necessary or desirable and are not contrary to or inconsistent with the Bond Resolution or the applicable Series Resolution theretofore in effect;

(3) To waive any right reserved to the Agency, provided that the loss of such right shall not adversely impair any Revenues available to pay the Outstanding Bonds of any Series; and

(4) To make any other change as shall not be, in the opinion of the Trustee, materially adverse to the security or other interests of the Bondowners. With respect to the foregoing, the Trustee may rely upon the opinion of the Rating Agency with respect to whether the Rating of the Bonds has been adversely affected as conclusively establishing whether the change is materially adverse to the security or other interests of the Bondowners.

Other Supplemental Resolutions may become effective only with consent (i) of the Bondowners of at least a majority in principal amount of the Bonds Outstanding at the time such consent is given and (ii) in case less than all of the several Series of Bonds then Outstanding are affected by the modification or amendment, of the Bondowners of at least a majority in principal amount of the Bonds of each Series so affected and Outstanding at the time such consent is given.

However, no such modification or amendment shall permit a change in the terms of redemption or maturity of the principal of any Outstanding Bonds or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price or purchase price thereof or in the rate of interest thereon (except as otherwise provided in a Series Resolution) without the consent of the Bondowners of all such Bonds, or shall reduce the percentages or otherwise affect the classes of Bonds the consent of the Bondowners of which is required to effect any such modification or amendment or shall change or modify any of the rights or obligations of any Fiduciary without its written assent thereto.

Any amendment may be made with unanimous consent of the Bondowners, except that no amendment shall change any of the rights or obligations of any fiduciary without the consent of the Fiduciary.

APPENDIX E

MORTGAGE INSURANCE PROGRAMS AND STATE LAWS AFFECTING FORECLOSURES

Federal Housing Administration Single-Family Mortgage Insurance Programs

The National Housing Act of 1934, as amended, authorizes various Federal Housing Administration (the "FHA") mortgage insurance programs, which differ in some respects depending primarily upon whether the mortgaged premises contain five or more dwelling units or less than five such units.

The regulations governing all of the FHA programs under which the mortgage loans may be insured provide that insurance benefits are payable upon foreclosure (or other acquisition of possession) and conveyance of the mortgaged premises to the Department of Housing and Urban Development ("HUD").

Under some of the FHA insurance programs, insurance claims are paid by HUD in cash, unless the mortgage holder specifically requests in debentures issued by HUD. Under others, HUD has the option, at its discretion, to pay insurance claims in cash or in such debentures. The current HUD policy, subject to change at any time, is to make insurance payments on single-family mortgage loans in cash, with respect to all programs covering such units as to which it has discretion to determine the form of insurance payment.

HUD debentures issued in satisfaction of FHA insurance claims bear interest at the HUD debenture interest rate in effect under HUD regulations on the date of the mortgage insurance commitment or of the initial insurance endorsement of the mortgage, whichever rate is higher. The HUD debenture interest rates applicable to the FHA insured mortgages which the Agency has acquired or committed to acquire are in most cases lower than the interest rates of such mortgages.

When entitlement to insurance benefits results from foreclosure (or other acquisition of possession) and conveyance, the insurance payment is computed as of the date of institution of foreclosure proceedings or acquisition of the property. The mortgage holder generally is not compensated for mortgage interest accrued and unpaid prior to that date. Under such circumstances, the amount of insurance benefits generally paid by FHA is equal to the unpaid principal amount of the mortgage loan, adjusted to reimburse the mortgagee for certain tax, insurance and similar payments made by it and to deduct certain amounts received or retained by the mortgagee after default, plus reimbursement not to exceed 2/3 of the mortgagee's foreclosure costs. The regulations under all insurance programs described above provide that the insurance payment itself shall bear interest from the date of default, to the date of payment of the claim at the same interest rate as the applicable HUD debenture interest rate determined in the manner set forth above.

When any property to be conveyed to HUD has been damaged by fire, earthquake, flood or tornado, or, if the property has suffered damage because of failure of the mortgage holder to take action to inspect and preserve the property, it is generally required, as a condition to payment of an insurance claim, that such property be repaired by the mortgage holder prior to such conveyance or assignment. For mortgages insured on or after April 19, 1992, if the property has been damaged during the mortgage holder's possession by events other than fire, flood, earthquake or tornado notwithstanding reasonable action by the mortgage holder, HUD may require the mortgage holder to repair the property prior to conveyance to HUD as a condition to payment of an insurance claim.

Veterans Administration Guaranty Program

The Serviceman's Readjustment Act of 1944, as amended, permits a veteran (or, in certain instances, his or her spouse) to obtain a mortgage loan guaranteed by the Veterans Administration (the "VA") covering mortgage financing of the purchase of a one-to-four family dwelling unit at interest rates agreed upon by the purchaser and the mortgagee, as the VA may elect. The program has no mortgage loan limits (other than that the amount may not exceed the property's reasonable value as determined by the VA), requires no down payment from the purchaser and permits the guaranty of mortgage loans with terms of up to 30 years. The guaranty provisions for mortgage loans are as follows: (a) for home and condominium loans of $45,000 or less, 50% of the loan is guaranteed (for loans with an original principal balance of $45,000 and not more than $56,250, the guaranty will not exceed $22,500);

(b) for home and condominium loans of more than $56,250 but less than or equal to $144,000, 40% of the loan is guaranteed subject to a maximum guaranty of $36,000; (c) for home and condominium loans of more than $144,000, 25% of the principal amount of the loan is guaranteed subject to a maximum guarantee of $50,750; and (d) for loans for manufactured homes, 40% of the loan is guaranteed (with a maximum guaranty of $20,000). The liability on the guaranty is reduced or increased pro rata with any reduction or increase in the amount of the indebtedness, but in no event will the amount payable on the guaranty exceed the amount of the original guaranty. Notwithstanding the dollar and percentage limitations of the guaranty, a mortgage holder will ordinarily suffer a monetary loss only where the difference between the unsatisfied indebtedness and the proceeds of a foreclosure sale of a mortgaged premises is greater than the original guaranty as adjusted. The VA may, at its option and without regard to the guaranty, make full payment to a mortgage holder of unsatisfied indebtedness on a mortgage upon its assignment to the VA.

Rural Development (RD) Insured Program

Loans insured by Rural Development ("RD") may be made to purchase new or existing homes in designated rural areas. Eligible rural areas have a population not in excess of 10,000 persons or if located outside a Metropolitan Statistical Area, not in excess of 25,000. Loans may be made up to 100% of the market value of the property or 100% of the acquisition cost, whichever is less. The maximum loan amount is the applicable FHA maximum loan amount. The interest rate of these 30 year mortgages may not exceed the higher of the current VA rate or the Federal National Mortgage Association's ("FNMA") required net yield for 90 day commitments on a 30 year fixed-rate mortgage with actual/actual remittance plus 60 basis points. RD covers all losses on foreclosed loans up to 35% of the original principal. Any loss in excess of this amount carries an 85% guarantee. It is the present administrative policy of the Agency to tender a claim to RD by the earlier of (a) six months after the date of acquisition of the property through foreclosure or (b) 30 days after the sale of the property. The Agency retains title to the property and may apply the insurance proceeds and any sale proceeds to the outstanding debt.

Private Mortgage Insurance Programs

In accordance with the Bond Resolution, all Program Loans insured by a private mortgage insurance company shall be in any amount not exceeding the Market Value of the Home, provided that the Agency is issued a mortgage insurance policy under which the minimum insured percentage of any claim filed is at least equal to that percentage of the Market Value or sale price of the Home, whichever is less, by which the original principal amount of the mortgage exceeds 80% of such Market Value. Each private mortgage insurer insuring such Program Loans must be (a) licensed to do business in Minnesota and (b) maintain a rating of A2 from Moody's Investors Services and AA from Standard and Poors Corporation, or must be approved to insure mortgages purchased by FNMA and the Federal Home Loan Mortgage Corporation ("FHLMC"). Both FNMA and FHLMC require approval of private mortgage insurance companies before mortgages insured by those companies are eligible for purchase by them.

Among the considerations taken into account by FNMA in determining whether to approve a private mortgage insurer are the following: (a) experienced mortgage insurers are expected to have policyholders' surplus of not less than $5 million; (b) it is preferred that an insurer's principal insurance activity relate to loss resulting from nonpayment of mortgages and deeds of trust on residential structures, with total liability not in excess of 25 times its policyholders' surplus; (c) a private mortgage insurer must demonstrate that it possesses the technical expertise necessary to properly evaluate property and credit; and (d) an insurer must expressly consent to and comply with FNMA's requirements for audit and reports concerning changes in personnel, financial structure, qualifications, and rates.

FHLMC eligibility requirements for approving private mortgage insurers presently provide that (a) not more than 10% of an insurer's mortgage insurance risk may be represented by mortgage insurance covering property other than real property improved by a building or buildings designed for occupancy by one to four families and (b) an insurer shall not insure mortgages secured by properties in a single housing tract or contiguous tracts where the insurance risk applicable thereto is in excess of 10% of its policyholders' surplus (net of reinsurance); (c) no insurer shall have more than 20% of its total insurance in force in any one Standard Metropolitan Statistical Area nor may any combination of insurance in force in any one state exceed 60% of its total insurance in force; and (d) an insurer shall limit its insurance risk with respect to each insured to the maximum permitted under state law.

FHLMC also requires the private mortgage insurer to meet the following financial requirements: (a) policyholders' surplus must be maintained at not less than $5 million; (b) an insurer shall maintain an unearned premium reserve computed on a monthly pro rata basis; if a greater unearned premium reserve is required by the state where the insurer is licensed, then such greater requirement shall be met; (c) an insurer shall establish and maintain a contingency reserve in an amount equal to 50% of earned premiums; (d) an insurer shall maintain a loss reserve for claims incurred but not reported, including estimated losses on insured mortgages which have resulted in the conveyance of property which remains unsold, mortgages in the process of foreclosure or mortgages in default for four or more months; (e) an insurer shall maintain no less than 85% of its total admitted assets in the form of marketable securities or other highly liquid investments which qualify as insurance company investments under the laws and regulations of the state of its domicile and the standards of the National Association of Insurance Commissioners; and (f) an insurer shall not at any time have total insurance risk outstanding in excess of 25 times its policyholders' surplus. Approved private mortgage insurers must file quarterly and annual reports with the FHLMC.

It is the present administrative policy of the Agency to require that any private mortgage insurance policy with respect to a Program Loan to be purchased with the proceeds of the Series Bonds contain provisions substantially as follows: (a) the private mortgage insurer must pay a claim, including unpaid principal, accrued interest and certain expenses, within sixty days of presentation of the claim by the mortgage lender; (b) for a mortgage lender to present a claim, the mortgage lender must have acquired, and tendered to the insurer, title to the property, free and clear of all liens and encumbrances, including any right of redemption by the mortgagor; (c) when a claim is presented, the insurer will have the option of paying the claim in full, taking title to the property and arranging for its sale, or of paying the insured percentage of the claim (either 20 or 25%, depending on the coverage purchased by the mortgage lender) and allowing the insured lender to retain title to the property.

The foregoing description of certain mortgage insurance programs is only a brief outline and does not purport to summarize or describe all of the provisions of these programs. For a more complete description of the terms of these programs, reference is made to the provisions of the insurance and guaranty contracts embodied in regulations of the FHA, RD and the VA, respectively, and of the regulations, master insurance contracts and other such information of the various private mortgage insurers. Program Loans purchased by the Agency are not limited by the Resolutions to the foregoing programs and it is possible that insurance benefits under other Federal or private programs in which the Agency may participate could be more or less favorable.

Insurance Reserve Fund

For a description of the Insurance Reserve Fund, see "Summary of Certain Provisions of the Bond Resolution" in Appendix D.

State Laws Affecting Foreclosures

Mortgage foreclosures in Minnesota are governed by statute and permit two alternative methods, "by action" or "by advertisement." The latter is normally utilized since it is slightly faster, less expensive, and does not have the same tendency to invite contest as does foreclosure by action. The process is normally initiated by the publication, recordation and service of a notice of foreclosure. This notice must include all relevant information on the mortgage loan and the secured premises as well as a statement of the time and place of sale and the time allowed by law for redemption by the mortgagor. This notice must then be published in a legal newspaper each week for six consecutive weeks. Service of the notice on the mortgagor and any other affected party must be completed at least four weeks prior to the designated date of the foreclosure sale. Compliance with the above publication and service of notice requirements within the prescribed time limitations is essential to the validity of the mortgage foreclosure sale.

Prior to the foreclosure sale, the mortgagor has the right to reinstate the mortgage and prevent foreclosure by curing all defaults on a current basis and by paying attorneys' fees and out-of-pocket disbursements to the extent permitted by statute. If the mortgage is not reinstated, the foreclosure sale is held in the sheriffs office in the county in which the real estate being foreclosed is located. Although anyone can bid at a foreclosure sale, the normal result of the foreclosure sale is that the lender bids in the debt without competing bidders (and under the Bond Resolution, the Agency is required to do so), and purchases the mortgaged property from the defaulting borrower through the sheriff, subject to the rights of the borrower and subsequent creditors to redeem.

The holding of such foreclosure sale starts the period of redemption. The period of redemption will normally be six months but can be as long as twelve months. During the period of redemption the mortgagor normally retains the right to remain in possession of the mortgaged property without making mortgage payments or paying real estate taxes. During the period of redemption, the mortgagor has the right to pay off the entire indebtedness, including full principal, accrued interest, any amounts reasonably paid by the mortgagee to preserve the security, and attorneys' fees and disbursements to the extent allowed by statute.

After the period of redemption expires, the mortgagee is entitled to possession of the premises, but may have to bring an unlawful detainer proceeding to enforce its possessory rights, and a proceeding subsequent in the case of Torrens property to perfect its title to the mortgaged property.

It is not unusual, therefore, for a mortgagee to be delayed 10 months or more from the date of initiation of the mortgage foreclosure proceeding until it realizes its possessory rights.

APPENDIX F

BOOK-ENTRY-ONLY SYSTEM

Book-Entry-Only System

The Depository Trust Company, New York, New York ("DTC"), is to act as securities depository for each series of the Series Bonds. The ownership of one fully registered Series Bond of each Series for each maturity in the aggregate principal amount of such maturity, will be registered in the name of Cede & Co., DTC's partnership nominee. *So long as Cede & Co. is the Registered Owner of the Series Bonds of a series, as nominee of DTC, references herein to the Bondholders, Holders or Registered Owners of such Series Bonds shall mean Cede & Co. and shall not mean the Beneficial Owners of such Series Bonds.*

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation and Emerging Markets Clearing Corporation (NSCC, GSCC, MBSCC and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of beneficial ownership interests in the Series Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series Bonds on DTC's records. The ownership interest of each actual purchaser of each Series Bond (the "Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series Bonds, except in the event that use of the Book-Entry System for Series Bonds of such Series discontinued as described below.

To facilitate subsequent transfers, all Series Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers. For every transfer and exchange of beneficial ownership in the Series Bonds, the Beneficial Owner may be charged a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices will be sent to DTC. If less than all of the Series Bonds of a series and maturity are being redeemed, DTC's, practice is to determine by lot the amount of the interest of each Direct Participant in such Series Bonds of such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to any Series Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payment of the principal, redemption price and interest on the Series Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the issuer, the Trustee on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee or the Agency, subject to any statutory and regulatory requirements as may be in effect from time to time. Payment of principal, redemption price and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC), is the responsibility of the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

Under the Series Resolution, payments made by or on behalf of the Agency to DTC or its nominee shall satisfy the Agency's obligations under the Resolutions to the extent of the payments so made.

The above information contained in this section "Book-Entry-Only System" is based solely on information provided by DTC. No representation is made by the Agency or the Underwriters as to the completeness or the accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.

The Agency, the Underwriters and the Trustee cannot and do not give any assurances that DTC, the Direct Participants or the Indirect Participants will distribute to the Beneficial Owners of the Series Bonds (i) payments of principal of or interest and premium, if any, on the Series Bonds, (ii) certificates representing an ownership interest or other confirmation of beneficial ownership interest in Series Bonds, or (iii) redemption or other notices sent to DTC or Cede & Co., its nominee, as the Registered Owner of the Series Bonds, or that they will do so on a timely basis, or that DTC, Direct Participants or Indirect Participants will serve and act in the manner described in this Official Statement. The current "Rules" applicable to DTC are on file with the Securities Exchange Commission, and the current "Procedures" of DTC to be followed in dealing with Direct Participants are on file with DTC.

Neither the Agency, the Underwriters nor the Trustee will have any responsibility or obligation to any Direct Participant, Indirect Participant or any Beneficial Owner or any other person with respect to: (1) the Series Bonds; (2) the accuracy of any records maintained by DTC or any Direct Participant or Indirect Participant; (3) the payment by DTC or any Direct Participant or Indirect Participant of any amount due to any Beneficial Owner in respect of the principal or redemption price of or interest on the Series Bonds; (4) the delivery by DTC or any Direct Participant or Indirect Participant of any notice to any Beneficial Owner which is required or permitted under the terms of the Resolutions to be given to owners of Series Bonds; (5) the selection of the Beneficial Owners to receive payment in the event of any partial redemption of the Series Bonds; or (6) any consent given or other action taken by DTC as a Bondholder.

Discontinuation of Book-Entry System

DTC may discontinue its book-entry services with respect to all or any series of the Series Bonds at any time by giving notice to the Agency and discharging its responsibilities with respect thereto under applicable law.

Under such circumstances, such series of Series Bonds are required to be delivered as described in the Series Resolution. The Beneficial Owner, upon registration of such Series Bonds held in the Beneficial Owner's name, shall become the Bondowner.

The Agency may determine to discontinue the system of book-entry transfers through DTC (or a successor securities depository) for all or any series of the Series Bonds. In such event, the Series Bonds of such series are to be delivered as described in the Series Resolution.

APPENDIX G

OPINIONS OF BOND COUNSEL

[To be dated the date of issuance of the 2006 Series A Bonds]

Minnesota Housing Finance Agency
St. Paul, Minnesota 55101

Re: Minnesota Housing Finance Agency
Residential Housing Finance Bonds, 2006 Series A

Ladies and Gentlemen:

We have acted as bond counsel to the Minnesota Housing Finance Agency (the "Agency") in connection with the authorization, issuance and delivery by the Agency of its Residential Housing Finance Bonds, 2006 Series A, in the aggregate principal amount of $13,150,000 (the "2006 Series A Bonds"), which are issuable only as fully registered bonds of single maturities in denominations of $5,000 or any integral multiple thereof.

The 2006 Series A Bonds are dated, mature on the dates, bear interest at the rates and are payable as provided in the Series Resolution referenced below. The 2006 Series A Bonds are subject to optional and special redemption prior to maturity, including special redemption at par, and to mandatory tender for purchase at par, all as provided in the Series Resolution.

As bond counsel, we have examined certificates as to facts, estimates and circumstances and certified copies of resolutions and proceedings of the Agency and other documents we considered necessary as the basis for this opinion, including the Agency's Amended and Restated Bond Resolution adopted August 24, 1995, as amended and supplemented, and the Series Resolution adopted January 26, 2006. As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigation.

Applicable federal tax law, including certain provisions of Sections 143 and 148 of the Internal Revenue Code of 1986, as amended (the "Code"), establishes certain requirements which must be met subsequent to the delivery of the 2006 Series A Bonds in order that interest on the 2006 Series A Bonds may be excluded from gross income for federal income tax purposes. The Agency has covenanted in the Bond Resolution and Series Resolution to comply with the requirements of applicable federal tax law and for such purpose to adopt and maintain appropriate procedures. In rendering this opinion, we have assumed compliance by the Agency with and enforcement by the Agency of the provisions of the Bond and Series Resolutions.

From such examination it is our opinion that, under state and federal laws, regulations, rulings and decisions in effect on the date hereof: (1) the Agency is a public body corporate and politic, having no taxing power, duly organized and existing under Minnesota Statutes, Chapter 462A, as amended; (2) the Bond and Series Resolution have been duly and validly adopted by the Agency and are valid and binding upon it in accordance with their terms, and create the valid pledge and security interest they purport to create with respect to the Program Obligations, Investment Obligations, Revenues, moneys and other assets held and to be set aside under the Bond and Series Resolution; (3) the 2006 Series A Bonds are duly and lawfully authorized to be issued and are valid and binding general obligations of the Agency in accordance with their terms, entitled to the benefits granted by and secured by the covenants contained in the Bond and Series Resolution, and are further secured by the pledge of the full faith and credit of the Agency, and are payable out of any of its moneys, assets or revenues, subject to the provisions of other resolutions or indentures now or hereafter pledging and appropriating particular moneys, assets, or revenues to other bonds or notes, or state laws appropriating particular funds for a specified purpose, but the State of Minnesota is not liable thereon and the 2006 Series A Bonds are not a debt of the State; (4) in the Bond Resolution the Agency has created a Debt Service Reserve Fund for the security of the 2006 Series A Bonds and other bonds issued or to be issued under the Bond Resolution, to be maintained in an amount specified therein, and has agreed to certify annually to the Governor the sum, if any, necessary to restore the Fund to this amount for inclusion in the next budget submitted to the Legislature, and the Legislature is legally authorized, but is not legally obligated, to appropriate such amount to the Fund; and (5) the interest payable on the 2006 Series A Bonds is not includable in gross income of owners thereof for federal income tax purposes or in taxable net income of individuals, trusts and estates for State of Minnesota income tax purposes, but such interest is includable in the income of corporations and financial institutions for purposes of the Minnesota franchise tax.

Interest on the 2006 Series A Bonds will not be treated as a preference item in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations, and in calculating the Minnesota alternative minimum tax imposed on individuals, trusts and estates, but will be included in the calculation of adjusted current earnings for purposes of calculating federal and State of Minnesota alternative minimum taxes imposed on corporations. We express no opinion regarding other federal or state tax consequences arising from the ownership or disposition of the 2006 Series A Bonds. All owners of 2006 Series A Bonds (including, but not limited to, insurance companies, financial institutions, Subchapter S corporations, United States branches of foreign corporations and recipients of social security and railroad retirement benefits) should consult their tax advisors concerning other possible indirect tax consequences of owning and disposing of the 2006 Series A Bonds.

The opinions expressed above are qualified only to the extent that the enforceability of the 2006 Series A Bonds and the Bond and Series Resolution may be limited by general principles of equity and by bankruptcy, insolvency, reorganization, moratorium or other laws relating to or affecting enforcement of creditor's rights heretofore or hereafter enacted.

Dated: ______________, 2006.

Respectfully yours,

[To be dated the date of issuance of the Series 2006 Series B Bonds]

Minnesota Housing Finance Agency
St. Paul, Minnesota 55101

Re: Minnesota Housing Finance Agency
Residential Housing Finance Bonds, 2006 Series B

Ladies and Gentlemen:

We have acted as bond counsel to the Minnesota Housing Finance Agency (the "Agency") in connection with the authorization, issuance and delivery by the Agency of its Residential Housing Finance Bonds, 2006 Series B, in the aggregate principal amount of $43,515,000 (the "2006 Series B Bonds"), which are issuable only as fully registered bonds of single maturities in denominations of $5,000 or any integral multiple thereof.

The 2006 Series B Bonds are dated, mature on the dates, bear interest at the rates and are payable as provided in the Series Resolution referenced below. The 2006 Series B Bonds are subject to optional and special redemption prior to maturity, including special redemption at par, and to mandatory tender for purchase at par, all as provided in the Series Resolution.

As bond counsel, we have examined certificates as to facts, estimates and circumstances and certified copies of resolutions and proceedings of the Agency and other documents we considered necessary as the basis for this opinion, including the Agency's Amended and Restated Bond Resolution adopted August 24, 1995, as amended and supplemented, and the Series Resolution adopted January 26, 2006. As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigation.

Applicable federal tax law, including certain provisions of Sections 143 and 148 of the Internal Revenue Code of 1986, as amended (the "Code"), establishes certain requirements which must be met subsequent to the delivery of the 2006 Series B Bonds in order that interest on the 2006 Series B Bonds may be excluded from gross income for federal income tax purposes. The Agency has covenanted in the Bond Resolution and Series Resolution to comply with the requirements of applicable federal tax law and for such purpose to adopt and maintain appropriate procedures. In rendering this opinion, we have assumed compliance by the Agency with and enforcement by the Agency of the provisions of the Bond and Series Resolutions.

From such examination it is our opinion that, under state and federal laws, regulations, rulings and decisions in effect on the date hereof: (1) the Agency is a public body corporate and politic, having no taxing power, duly organized and existing under Minnesota Statutes, Chapter 462A, as amended; (2) the Bond and Series Resolution have been duly and validly adopted by the Agency and are valid and binding upon it in accordance with their terms, and create the valid pledge and security interest they purport to create with respect to the Program Obligations, Investment Obligations, Revenues, moneys and other assets held and to be set aside under the Bond and Series Resolution; (3) the 2006 Series B Bonds are duly and lawfully authorized to be issued and are valid and binding general obligations of the Agency in accordance with their terms, entitled to the benefits granted by and secured by the covenants contained in the Bond and Series Resolution, and are further secured by the pledge of the full faith and credit of the Agency, and are payable out of any of its moneys, assets or revenues, subject to the provisions of other resolutions or indentures now or hereafter pledging and appropriating particular moneys, assets, or revenues to other bonds or notes, or state laws appropriating particular funds for a specified purpose, but the State of Minnesota is not liable thereon and the 2006 Series B Bonds are not a debt of the State; (4) in the Bond Resolution the Agency has created a Debt Service Reserve Fund for the security of the 2006 Series B Bonds and other bonds issued or to be issued under the Bond Resolution, to be maintained in an amount specified therein, and has agreed to certify annually to the Governor the sum, if any, necessary to restore the Fund to this amount for inclusion in the next budget submitted to the Legislature, and the Legislature is legally authorized, but is not legally obligated, to appropriate such amount to the Fund; and (5) the interest payable on the 2006 Series B Bonds is not includable in gross income of owners thereof for federal income tax purposes or in taxable net income of individuals, trusts and estates for State of Minnesota income tax purposes, but such interest is includable in the income of corporations and financial institutions for purposes of the Minnesota franchise tax.

Interest on the 2006 Series B Bonds will be treated as a preference item in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations and in calculating the Minnesota alternative minimum tax imposed on individuals, trusts and estates. We express no opinion regarding other federal or state tax consequences arising from the ownership or disposition of the 2006 Series B Bonds. All owners of 2006 Series B Bonds (including, but not limited to, insurance companies, financial institutions, Subchapter S corporations, United States branches of foreign corporations and recipients of social security and railroad retirement benefits) should consult their tax advisors concerning other possible indirect tax consequences of owning and disposing of the 2006 Series B Bonds.

The opinions expressed above are qualified only to the extent that the enforceability of the 2006 Series B Bonds and the Bond and Series Resolution may be limited by general principles of equity and by bankruptcy, insolvency, reorganization, moratorium or other laws relating to or affecting enforcement of creditor's rights heretofore or hereafter enacted.

Dated: ______________, 2006.

Respectfully yours,

[To be dated the date of issuance of the 2006 Series C Bonds]

Minnesota Housing Finance Agency
St. Paul, Minnesota 55101

Re: Minnesota Housing Finance Agency
Residential Housing Finance Bonds, 2006 Series C

Ladies and Gentlemen:

We have acted as bond counsel to the Minnesota Housing Finance Agency (the "Agency") in connection with the authorization, issuance and delivery by the Agency of its Residential Housing Finance Bonds, 2006 Series C, in the aggregate principal amount of $28,335,000 (the "2006 Series C Bonds"), which are issuable only as fully registered bonds of single maturities in denominations of $100,000 or any integral multiple of $5,000 in excess thereof.

The 2006 Series C Bonds are dated, mature on the date, bear interest at the rates and are payable as provided in the Series Resolution referenced below. The 2006 Series C Bonds are subject to optional, mandatory and special redemption prior to maturity, including special redemption at par, and to optional and mandatory tender for purchase at par, all as provided in the Series Resolution.

As bond counsel, we have examined certificates as to facts, estimates and circumstances and certified copies of resolutions and proceedings of the Agency and other documents we considered necessary as the basis for this opinion, including the Agency's Amended and Restated Bond Resolution adopted August 24, 1995, as amended and supplemented, and the Series Resolution adopted January 26, 2006. As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigation.

Applicable federal tax law, including certain provisions of Sections 143 and 148 of the Internal Revenue Code of 1986, as amended (the "Code"), establishes certain requirements which must be met subsequent to the delivery of the 2006 Series C Bonds in order that interest on the 2006 Series C Bonds may be excluded from gross income for federal income tax purposes. The Agency has covenanted in the Bond Resolution and Series Resolution to comply with the requirements of applicable federal tax law and for such purpose to adopt and maintain appropriate procedures. In rendering this opinion, we have assumed compliance by the Agency with and enforcement by the Agency of the provisions of the Bond and Series Resolutions.

From such examination it is our opinion that, under state and federal laws, regulations, rulings and decisions in effect on the date hereof: (1) the Agency is a public body corporate and politic, having no taxing power, duly organized and existing under Minnesota Statutes, Chapter 462A, as amended; (2) the Bond and Series Resolutions have been duly and validly adopted by the Agency and are valid and binding upon it in accordance with their terms, and create the valid pledge and security interest they purport to create with respect to the Program Obligations, Investment Obligations, Revenues, moneys and other assets held and to be set aside under the Bond and Series Resolutions; (3) the 2006 Series C Bonds are duly and lawfully authorized to be issued and are valid and binding general obligations of the Agency in accordance with their terms, entitled to the benefits granted by and secured by the covenants contained in the Bond and Series Resolutions, and are further secured by the pledge of the full faith and credit of the Agency, and are payable out of any of its moneys, assets or revenues, subject to the provisions of other resolutions or indentures now or hereafter pledging and appropriating particular moneys, assets, or revenues to other bonds or notes, or state laws appropriating particular funds for a specified purpose, but the State of Minnesota is not liable thereon and the 2006 Series C Bonds are not a debt of the State; (4) in the Bond Resolution the Agency has created a Debt Service Reserve Fund for the security of the 2006 Series C Bonds and other bonds issued or to be issued under the Bond Resolution, to be maintained in an amount specified therein, and has agreed to certify annually to the Governor the sum, if any, necessary to restore the Fund to this amount for inclusion in the next budget submitted to the Legislature, and the Legislature is legally authorized, but is not legally obligated, to appropriate such amount to the Fund; and (5) the interest payable on the 2006 Series C Bonds is not includable in gross income of owners thereof for federal income tax purposes or in taxable net income of individuals, trusts and estates for State of Minnesota income tax purposes, but such interest is includable in the income of corporations and financial institutions for purposes of the Minnesota franchise tax.

Interest on the 2006 Series C Bonds will be treated as a preference item in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations, and in calculating the Minnesota alternative minimum tax imposed on individuals, trusts and estates. We express no opinion regarding other federal or state tax consequences arising from the ownership or disposition of the 2006 Series C Bonds. All owners of 2006 Series C Bonds (including, but not limited to, insurance companies, financial institutions, Subchapter S corporations, United States branches of foreign corporations and recipients of social security and railroad retirement benefits) should consult their tax advisors concerning other possible indirect tax consequences of owning and disposing of the 2006 Series C Bonds.

The interest rate on all or a portion of the 2006 Series C Bonds may be converted from a variable rate mode to a different interest rate mode on a Conversion Date (as defined in the Series Resolution), subject to the terms and conditions set forth in the Series Resolution, including the requirement of delivery to the Agency and the Trustee of an opinion of nationally-recognized bond counsel to the effect that the change in interest rate period will not adversely affect the exemption of interest on the 2006 Series C Bonds from federal income taxation. We express no opinion as to the exemption from federal or State of Minnesota income taxation of interest on any 2006 Series C Bond on or after the initial Conversion Date, if and when it occurs.

The opinions expressed above are qualified only to the extent that the enforceability of the 2006 Series C Bonds and the Bond and Series Resolutions may be limited by general principles of equity and by bankruptcy, insolvency, reorganization, moratorium or other laws relating to or affecting enforcement of creditor's rights heretofore or hereafter enacted.

Dated: ______________, 2006.

Respectfully yours,

APPENDIX H

CERTAIN DEFINITIONS WITH RESPECT TO THE 2006 SERIES C BONDS

"*Alternate Liquidity Facility*" means any standby purchase agreement, line of credit, letter of credit or similar agreement (not including a Non-Conforming Liquidity Facility or Self-Liquidity Facility) providing liquidity for the Liquidity Facility Bonds or any portion thereof, delivered by the Agency in connection with a Mode Change to a Mode Period other than an Auction Mode Period or in substitution for an existing Liquidity Facility pursuant to the terms of the Series Resolution. The extension or renewal of an extant Liquidity Facility shall not be deemed an Alternate Liquidity Facility.

"*Bank*" means (i) with respect to the Initial Liquidity Facility for the 2006 Series C Bonds, State Street Bank and Trust Company, a Massachusetts trust company, together with its successors and assigns; (ii) with respect to an Alternate Liquidity Facility or a Non-Conforming Liquidity Facility, the provider thereof, together with its successors and assigns; and (iii) with respect to Self Liquidity, the Agency, together with its successors and assigns.

"*Bank Bonds*" means 2006 Series C Bonds purchased with funds provided by the Bank pursuant to a Liquidity Facility, other than Self Liquidity.

"*Bank Rate*" means the rate of interest, if any, on any Bank Bonds held by and payable to the Bank at any time as determined and calculated in accordance with the provisions of the Liquidity Facility.

"*Bank Purchase Date*" means any Purchase Date on which the Bank purchases 2006 Series C Bonds.

"*Business Day*" means any day which shall not be a Saturday, Sunday, legal holiday or a day on which banks in the City of New York, New York or Minneapolis, Minnesota are authorized or required by law or executive order to remain closed and which shall not be a day on which the New York Stock Exchange is closed.

"*Conversion Date*" means the Business Day on which the interest rate on any of the 2006 Series C Bonds is Converted to a Fixed Interest Rate or an Indexed Rate.

"*Convert*," "*Converted*" or "*Conversion*," as appropriate, means the conversion of the interest rate on any of the 2006 Series C Bonds to a Fixed Interest Rate or an Indexed Rate pursuant to the Series Resolution.

"*Liquidity Expiration Event*" means either (i) the Agency has determined to terminate a Liquidity Facility in accordance with its terms, (ii) the Bank has delivered notice to the Trustee on or prior to 45 days prior to the scheduled expiration of a Liquidity Facility that such Liquidity Facility will not be extended or renewed or (iii) the Bank has not delivered notice to the Trustee on or prior to 45 days prior to the scheduled expiration of a Liquidity Facility that such Liquidity Facility will be extended or renewed.

"*Liquidity Facility*" means any instrument delivered pursuant to the terms of the Series Resolution which provides liquidity support for the purchase of Liquidity Facility Bonds in accordance with the terms of the Series Resolution, including the Initial Liquidity Facility and any Alternate Liquidity Facility, Non-Conforming Liquidity Facility or Self Liquidity.

"*Maximum Rate*" means (i) with respect to the 2006 Series C Bonds (other than Auction Bonds) 12% per annum, unless the Agency directs in writing that such rate be increased to a higher rate and delivers to the Trustee (a) an opinion of Bond Counsel to the effect that such amendment will not adversely affect the exclusion of interest on the Series Bonds, including the 2006 Series C Bonds, from gross income of the owners thereof for federal income tax purposes, (b) an Agency Certificate to the Trustee to the effect that such increase will not impair the Ratings on the 2006 Series C Bonds by each Rating Agency; and (c) a certified copy of a resolution adopted by the Agency approving such increase in the Maximum Rate; (ii) with respect to Auction Bonds, as of any Auction Date and as determined by the Agency, the product of the Auction Index times the Auction Multiple; and (iii) with respect to Bank Bonds, the meaning ascribed to such term in the Liquidity Facility; provided, however, that in no event shall the Maximum Rate, as described in (i) or (ii) above, exceed the lesser of (a) 12% or such higher rate as approved by the Agency's governing body or (b) the maximum rate permitted by applicable law, anything herein to the contrary notwithstanding.

"*Mode*" means the manner in which the interest rate on any of the 2006 Series C Bonds is determined, consisting of a Daily Rate, Weekly Rate, Monthly Rate, Quarterly Rate, Semiannual Rate or Auction Rate.

"*Mode Change*" means a change in Mode Period.

"*Mode Change Date*" means the date of effectiveness of a Mode Change.

"*Mode Period*" means each period beginning on the first Effective Rate Date for any of the 2006 Series C Bonds, or the first Effective Rate Date following a change from one Mode to another (including a change from one Auction Mode Period to another Auction Mode Period of a different duration), and ending on the date immediately preceding the first Effective Rate Date following the next such change in Mode with respect to such 2006 Series C Bonds.

"*Non-Conforming Liquidity Facility*" means a liquidity facility delivered by the Agency pursuant to the Series Resolution applicable to the 2006 Series C Bonds which does not meet the requirements for an Alternate Liquidity Facility.

"*Purchase Date*" means any date that 2006 Series C Bonds are to be purchased pursuant to the Series Resolution.

"*Purchase Price*" means an amount equal to the principal amount of any 2006 Series C Bond tendered or deemed tendered for purchase as provided herein, plus, if the Purchase Date is not an Interest Payment Date, accrued interest from the previous Interest Payment Date to the day preceding the Purchase Date.

"*Record Date*" means, with respect to Variable Rate Bonds, the Business Day immediately prior to the applicable Interest Payment Date and, in all other cases, the fifteenth day preceding each Interest Payment Date; provided, however, that if the Record Date is not a Business Day, then such Record Date shall be deemed to be the first Business Day following such Record Date.

"*Remarketing Agreement*" means the Remarketing Agreement, between the Agency and UBS Securities LLC with respect to the 2006 Series C Bonds, as the same may be amended in accordance with the terms thereof, and any similar agreement entered into between the Agency and any successor Remarketing Agent in respect of the 2006 Series C Bonds.

"*Self Liquidity*" means a liquidity facility provided by the Agency's own funds pursuant to the Series Resolution applicable to the 2006 Series C Bonds, other than a Non-Conforming Liquidity Facility.

"*TBMA Index*" means the rate determined on the basis of an index based upon the weekly interest rate resets of tax-exempt variable-rate issues included in a database maintained by Municipal Market Data which meet specific criteria established by The Bond Market Association, formerly the Public Securities Association.

"*Tender Agent*" means the Trustee appointed pursuant to the Series Resolution.

"*Variable Rate Bonds*" means the 2006 Series C Bonds during a Daily Mode Period, a Weekly Mode Period, a Monthly Mode Period, a Quarterly Mode Period, a Semiannual Mode Period (whether or not in each case such 2006 Series C Bonds are Liquidity Facility Bonds or Unenhanced Variable Rate Bonds) or 2006 Series C Bonds during an Auction Mode Period.

APPENDIX I

SUMMARY OF CERTAIN PROVISIONS OF AND RELATING TO THE STANDBY BOND PURCHASE AGREEMENT

This Appendix contains a summary of the Initial Liquidity Facility to be entered into with the Initial Liquidity Provider in the form of a Standby Bond Purchase Agreement in respect of the 2006 Series C Bonds. A copy of the Initial Liquidity Facility is on file with the Trustee, the Tender Agent and the Agency. Any Alternate Liquidity Facility may have terms substantially different from those of the Initial Liquidity Facility. For further information regarding the Initial Liquidity Provider (called the "Bank" in this Appendix I), see Appendix J.

THE INITIAL LIQUIDITY FACILITY

General

The Initial Liquidity Facility contains various provisions, covenants and conditions, certain of which are summarized below. Various words or terms used in the following summary are defined in the Official Statement, the Initial Liquidity Facility or the Resolutions (as such term is defined in the Initial Liquidity Facility), and reference thereto is made for full understanding of their import.

The Agency expects to execute the Initial Liquidity Facility with the Bank and the Trustee and Tender Agent on the date of delivery of the 2006 Series C Bonds. The Initial Liquidity Facility requires the Bank to provide funds for the purchase of the 2006 Series C Bonds that have been tendered for purchase and not remarketed, subject to certain conditions described below. Any 2006 Series C Bonds so purchased shall constitute Bank Bonds under the terms of the Initial Liquidity Facility and the Resolutions. Bank Bonds will bear interest at the Bank Rate, in accordance with the Initial Liquidity Facility, payable monthly.

Issuance of Additional Liquidity Facility Bonds

The Agency may issue additional series of its Residential Housing Finance Bonds as variable rate bonds ("Additional Liquidity Facility Bonds"). Upon satisfaction of certain conditions precedent, such Additional Liquidity Facility Bonds will be Bonds covered by the Initial Liquidity Facility. **In such case, an event of default under the Initial Liquidity Facility with respect to such Additional Liquidity Facility Bonds could result in the termination of the Initial Liquidity Facility with respect to the 2006 Series C Bonds.** For purposes of this section the term "Liquidity Facility Bonds" means the 2006 Series C Bonds and any Additional Liquidity Facility Bonds.

Representations and Covenants

The Agency makes certain representations, warranties and covenants under the Initial Liquidity Facility relating to various matters, including, without limitation, existence, authorization and validity, compliance with laws and payment of fees. The covenants and agreements contained in the Initial Liquidity Facility run only in favor of the Bank and may be waived at any time in the sole discretion of the Bank or amended at any time upon the agreement of the Agency and the Bank. Bondholders are not entitled to and should not rely upon any of the covenants and agreements in the Initial Liquidity Facility.

Expiration of the Initial Liquidity Facility

With respect to each Series of Liquidity Facility Bonds, the Bank is obligated to purchase Liquidity Facility Bonds pursuant to the Initial Liquidity Facility from the date of issuance of the respective Series of Liquidity Facility Bonds until the earliest to occur of the following dates and events (the "Commitment Period"): (1) the later of 5:00 p.m. Eastern United States time on March 21, 2013, (the "Expiration Date"), and the date to which such Expiration Date is extended at the sole discretion of the Bank (or if such date is not a Business Day, the Business Day next preceding such day); (2) the first date on which no Liquidity Facility Bonds of the Series are Outstanding; (3) 5:00 p.m. Eastern United States time on the first date on which the interest rate borne by all of the Liquidity

Facility Bonds of the Series has been Converted or changed to an Auction Rate or there has been a change to Unenhanced Variable Rate Bonds; (4) 5:00 p.m. Eastern United States time on the thirtieth (30th) day following the date on which a "Notice of Termination Date" (defined below in paragraph (2) of "*Remedies Upon Occurrence of an Event of Default*") is received by the Agency, the Trustee and the Tender Agent, or if such thirtieth (30th) day is not a Business Day, the next succeeding Business Day; (5) 5:00 p.m. Eastern United States time on the date on which an Alternate Liquidity Facility, a Non-Conforming Liquidity Facility or Self-Liquidity has become effective with respect to all Liquidity Facility Bonds of the Series; (6) 30 days after the Agency delivers a notice of voluntary termination of the Initial Liquidity Facility (or immediately upon delivery of such notice if the Bank has defaulted on any payment obligations under the Initial Liquidity Facility), and payment of all amounts owing to the Bank under the Initial Liquidity Facility; and (7) the occurrence of a "Termination Event" (as defined below in paragraph (1) of "*Remedies Upon Occurrence of an Event of Default*").

In the event there is an occurrence of a "Termination Event" as described below, the obligation of the Bank to purchase Liquidity Facility Bonds of all Series immediately terminates without notice or demand to any person. In such event, holders of Liquidity Facility Bonds will have no right to optionally tender the Liquidity Facility Bonds and may be required to hold such Liquidity Facility Bonds until the earlier of the redemption or maturity thereof.

Purchase of Liquidity Facility Bonds

The Tender Agent will notify the Bank in writing by not later than 11:00 a.m. Eastern United States time on the Business Day immediately following the seventh day prior to a Purchase Date of the maximum amount which could be payable on such Purchase Date to pay the Purchase Price of tendered Liquidity Facility Bonds. On each Purchase Date on which the Liquidity Facility Bonds are to be purchased by the Tender Agent, by no later than 12:00 p.m. Eastern United States time, the Tender Agent shall give the Bank notice by telecopier and in writing of the aggregate Purchase Price of the tendered Liquidity Facility Bonds required to be purchased by the Bank pursuant to the Initial Liquidity Facility, and the amount of principal and interest constituting such Purchase Price. Upon receipt of the notice set forth above, the Bank, unless it determines that its obligation to purchase pursuant to the Initial Liquidity Facility has been suspended or terminated in accordance therewith, shall, by no later than 2:00 p.m. Eastern United States time on the same day (or not later than 2:00 p.m. Eastern United States time on the next Business Day if the Bank receives such notice after 12:00 p.m. Eastern United States time), make available to the Tender Agent, in immediately available funds, such Purchase Price, to be deposited in accordance with the Resolutions. As soon as such funds become available, the Tender Agent is required to purchase therewith, for the account of the Bank, that portion of the tendered Liquidity Facility Bonds for the purchase of which immediately available funds are not otherwise then available for such purposes under the Resolutions. Under the Initial Liquidity Facility, the Bank is obligated, with respect to the 2006 Series C Bonds Outstanding as Liquidity Facility Bonds, to make available to the Tender Agent an amount equal to the principal amount of the 2006 Series C Bonds plus 189 days' interest at an assumed interest rate of 12%.

Events of Default Under the Initial Liquidity Facility

The following events constitute events of default under the Initial Liquidity Facility.

(1) Any principal of, or interest on, any Liquidity Facility Bond (including any Bank Bond) or any other amount owed to the Bank as owner of any Liquidity Facility Bond or Bank Bond pursuant to the Initial Liquidity Facility shall not be paid when due; or

(2) The Agency shall fail to pay any fee to the Bank due under the Initial Liquidity Facility within fifteen (15) days after the same shall become due; or

(3) Any representation or warranty made or deemed to be made to the Bank by or on behalf of the Agency in the Initial Liquidity Facility or in any of the Liquidity Facility Bonds, the Bank Bond Custody Agreement, the Resolutions, the Purchase Contract, or in any of the equivalent documents executed in connection with the issuance of any Additional Liquidity Facility Bonds (collectively, the "Related Documents") or in any certificate or statement delivered under the Initial Liquidity Facility shall be incorrect or untrue in any material respect when made or deemed to have been made; or

(4) The Agency shall fail to observe or perform certain enumerated covenants, which shall constitute an event of default immediately and without regard to any grace period; or

(5) The Agency shall default in the due performance or observance of any other term, covenant or agreement contained (or incorporated by reference) in the Initial Liquidity Facility (other than those referred to in paragraphs (1) through (4) above) and such default shall remain unremedied for a period of thirty (30) days after the Bank shall have given written notice thereof to the Agency; or

(6) (i) The Agency shall commence any case, proceeding or other action (A) under any existing or future law of any jurisdiction, domestic or foreign, relating to bankruptcy, insolvency, reorganization or relief of debtors seeking to have an order for relief entered with respect to it, or seeking to adjudicate it a bankrupt or insolvent, or seeking reorganization, arrangement, adjustment, winding-up, liquidation, dissolution, composition or other relief with respect to it or its Debts, or (B) seeking appointment of a receiver, trustee, custodian or other similar official for it or for all or any substantial part of its assets, or the Agency shall make a general assignment for the benefit of its creditors; or (ii) there shall be commenced against the Agency any case, proceeding or other action of a nature referred to in clause (i) above which (x) results in an order for such relief or in the appointment of a receiver or similar official or (y) remains undismissed, undischarged or unbonded for a period of sixty (60) days; or (iii) there shall be commenced against the Agency any case, proceeding or other action seeking issuance of a warrant of attachment, execution, rehabilitation, distraint or similar process against all or any substantial part of its assets which results in the entry of an order for any such relief which shall not have been vacated, discharged, stayed or bonded pending appeal within sixty (60) days from the entry thereof; or (iv) the Agency shall take any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the acts set forth in clause (i), (ii) or (iii) above; or (v) the Agency shall generally not, or shall be unable to, or so admit in writing its inability to, pay its Debts; or

(7) (i) An Event of Default under the Resolutions with respect to the payment of principal of or interest on the Bonds or (ii) an Event of Default under the Bond Resolution (other than as described in the Initial Liquidity Facility) pertaining to the Agency shall occur; or

(8) Any material provision of the Initial Liquidity Facility or any Related Document (other than the Preliminary Official Statement, the Official Statement or the Purchase Contract) relating to payment of principal or interest on the Liquidity Facility Bonds (including Bank Bonds) or the security therefor shall cease to be valid and binding on the Agency or any other party thereto or shall be declared to be null and void, or the validity or enforceability thereof shall be contested by the Agency or such other party thereto or by any governmental agency having jurisdiction, or any governmental agency having jurisdiction shall find or rule that any material provision of the Initial Liquidity Facility or any Related Document (other than the Preliminary Official Statement, this Official Statement or the Purchase Contract) relating to payment of principal or interest on the Liquidity Facility Bonds (including Bank Bonds) or the security therefor is not valid or binding on the Agency or such other party thereto, or the Agency or such other party shall deny that it has any or further liability or obligation under any such document; or

(9) Each of Moody's and S&P shall reduce the long-term credit rating of the Liquidity Facility Bonds below "Baa3" (or its equivalent) and "BBB-" (or its equivalent), respectively; or

(10) The Agency shall default in any payment of principal of or premium, if any, or interest on any obligation of the Agency issued pursuant to the Resolutions in excess of $5,000 and such default shall continue beyond the expiration of the applicable grace period, if any, or the Agency shall fail to perform any other agreement, term or condition contained in any agreement under which any such obligation is created or secured, which shall permit or result in the declaring due and payable of such obligation prior to the date on which it would otherwise have become due and payable; or

(11) A final judgment or order for the payment of money from the Revenue Fund in excess of $5,000 shall have been rendered against the Agency and shall, by order of the governmental agency issuing such final judgment or order, be payable from the Revenues and other monies pledged to the payment of the Bonds under the Resolutions, and such judgment or order shall not have been satisfied, stayed or bonded pending appeal.

Remedies Upon Occurrence of an Event of Default

Following the occurrence of certain of the above referenced events of default, the Bank may take any one or more of the following actions.

(1) In the case of the occurrence of an event of default specified in paragraphs (1), (6), (7), (8), (9) or (10) above (each, a "Termination Event"), the obligations of the Bank under the Initial Liquidity Facility to purchase the Liquidity Facility Bonds shall immediately terminate without notice or demand to any Person, and thereafter the Bank shall be under no obligation to purchase the Liquidity Facility Bonds. Promptly upon such event of default, the Bank shall give written notice of the same to the Agency, the Trustee, and the Remarketing Agent; *provided*, that the Bank shall incur no liability or responsibility whatsoever by reason of its failure to give such notice and such failure shall in no way affect the termination of the Bank's Available Commitment and of the obligation of the Bank to purchase Bonds pursuant to the Initial Liquidity Facility. The Agency shall cause the Trustee to notify all Bondowners of the termination of the Bank's Available Commitment and of the obligation of the Bank to purchase the Liquidity Facility Bonds.

(2) In the case of the occurrence of any event of default described above (other than as specified in paragraph (1) of this section), the Bank may give written notice of such event of default and termination of the Initial Liquidity Facility (a "Notice of Termination Date") to the Trustee, the Tender Agent, the Agency, and the Remarketing Agent requesting a mandatory tender of the Liquidity Facility Bonds. The obligation of the Bank to purchase the Liquidity Facility Bonds shall terminate on the thirtieth (30^{th}) day (or if such day is not a Business Day, the next following Business Day) after such Notice of Termination Date is received by the Tender Agent and on such date the Available Commitment shall terminate and the Bank shall be under no obligation under the Initial Liquidity Facility to purchase Liquidity Facility Bonds.

(3) In the case of the occurrence and during the continuance of a default, which with the lapse of time and/or giving of notice, would constitute an event of default, specified in paragraph (6)(ii) or (iii) above, the obligation of the Bank to advance funds for the purchase of Liquidity Facility Bonds under the Initial Liquidity Facility shall be immediately and automatically suspended, without notice, and the Bank shall be under no further obligation to purchase Liquidity Facility Bonds, until the bankruptcy, insolvency or similar proceeding referred to therein is terminated prior to the court entering an order granting the relief sought in such proceeding. In the event such proceeding is terminated, then the obligations of the Bank under the Initial Liquidity Facility shall be automatically reinstated and the terms of the Initial Liquidity Facility shall continue in full force and effect as if there had been no such suspension. If at any time prior to the earlier of (i) the Expiration Date and (ii) the date that is four (4) years following the suspension of the obligation of the Bank to purchase Liquidity Facility Bonds, (x) the default which gave rise to such suspension is cured or ceased to be continuing and (y) the obligation of the Bank to purchase Liquidity Facility Bonds under the Liquidity Facility has not otherwise terminated, then, upon written notice from the Trustee to the Bank to such effect, such obligation shall be automatically reinstated. If the default which gave rise to the suspension of the obligation of the Bank to advance funds for the purchase of Liquidity Facility Bonds under the Liquidity Facility has not been cured or has not ceased to be continuing prior to the four (4) year anniversary of such occurrence and such obligation has not otherwise terminated, then such obligation shall be terminated upon written notice from the Bank to the Agency and the Trustee and thereafter the Bank shall have no further obligations to purchase any Liquidity Facility Bonds.

(4) Upon the occurrence of any event of default, the Bank may declare all accrued and unpaid amounts payable to it under the Initial Liquidity Facility immediately due and payable (other than payments of principal of and interest on Bank Bonds, acceleration rights with respect to which are governed by the Resolutions), and the Bank shall have all remedies provided at law or equity, including, without limitation, specific performance; *provided*, *however*, the Bank agrees to purchase the Liquidity Facility Bonds on the terms and conditions of the Initial Liquidity Facility notwithstanding the occurrence of an event of default which does not terminate its obligation to purchase Bonds under paragraphs (1) and (2) of this section or suspend its obligation to purchase Bonds under paragraph (3) of this section.

(5) The remedies described in this section shall only be exclusive with respect to such events of default to the extent they are obtained by the Bank. If, for any reason whatsoever, the Bank is not able to obtain all

such remedies, then the Bank reserves the right and shall have the right to pursue any other available remedies, whether provided by law, equity or the Initial Liquidity Facility.

Extension of Commitment Period

Upon written request of the Agency to the Bank, made not less than 90 days nor more than 120 days prior to the then current Expiration Date or at such other time as is acceptable to the Bank, the then current Expiration Date may be extended from time to time by agreement in writing between the Bank and the Agency (the period from the preceding Expiration Date to such new Expiration Date being herein sometimes called the "Extended Commitment Period"). The Extended Commitment Period may itself be extended in a like manner. The Bank has no obligation to agree to any Extended Commitment Period. If the Bank, in its sole discretion following such request by the Agency, agrees to extend any such period, the Bank shall give written notice of the election to extend to the Agency, the Tender Agent and the Remarketing Agent within forty-five (45) days of such request. If the Bank does not so notify the Agency, the Expiration Date shall not be extended.

APPENDIX J

CERTAIN INFORMATION RELATING TO THE LIQUIDITY PROVIDER

Information Concerning State Street Bank and Trust Company

State Street Bank and Trust Company (the "Bank") is a wholly-owned subsidiary of State Street Corporation (the "Corporation"). The Corporation (NYSE: STT) a leading specialist in providing institutional investors with investment servicing, investment management and investment research and trading. With $9.5 trillion in assets under custody and $1.4 trillion in assets under management, the Corporation operates in 25 countries and more than 100 markets worldwide. The assets of the Bank at December 31, 2004 accounted for approximately 96% of the consolidated assets of the Corporation. At December 31, 2004, the Corporation had total assets of $94.040 billion, total deposits (including deposits in foreign offices) of $55.129 billion, total loans and lease finance assets net of unearned income, allowance and reserve for possible credit losses of approximately $4.611 billion and total equity capital of $6.159 billion.

The Bank's Consolidated Reports of Condition for Insured Commercial and State Chartered Savings Banks FFIEC 031 for December 31, 2004, as submitted to the Federal Reserve Bank of Boston, are incorporated by reference in this Appendix and shall be deemed to be a part hereof.

In addition, all reports filed by the Bank pursuant to 12 U.S.C. §324 after the date of this Official Statement shall be deemed to be incorporated herein by reference and shall be deemed to be a part hereof from the date of filing of any such report.

Additional information, including financial information relating to the Corporation and the Bank is set forth in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2004 and the Corporation's interim, un-audited Quarterly Reports on Form 10-Q for the quarters ended March 31, 2005, June 30, 2005 and September 30, 2005. Both the annual report and the quarterly reports can be found on the Corporation's web site, www.statestreet.com. Such reports and all reports filed by the Corporation pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, after the date of this Official Statement are incorporated herein by reference and shall be deemed a part hereof from the date of filing of any such report. The Standby Bond Purchase Agreement is an obligation of the Bank and not of the Corporation.

Any statement contained in any document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any subsequently filed document that also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Bank hereby undertakes to provide, without charge to each person to whom a copy of this Official Statement has been delivered, on the written request of any such person, a copy of any or all of the documents referred to above which have been or may be incorporated in this Official Statement by reference, other than exhibits to such documents. Written requests for such copies should be directed to Investor Relations, State Street Corporation, One Lincoln Street, Boston, Massachusetts 02111, telephone number 617-786-3000.

Neither the Bank nor its affiliates make any representation as to the contents of this Official Statement (except as to this Appendix to the extent it relates to the Bank), the suitability of the 2006 Series C Bonds for any investor, the feasibility or performance of any project or compliance with any securities or tax laws or regulations.

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