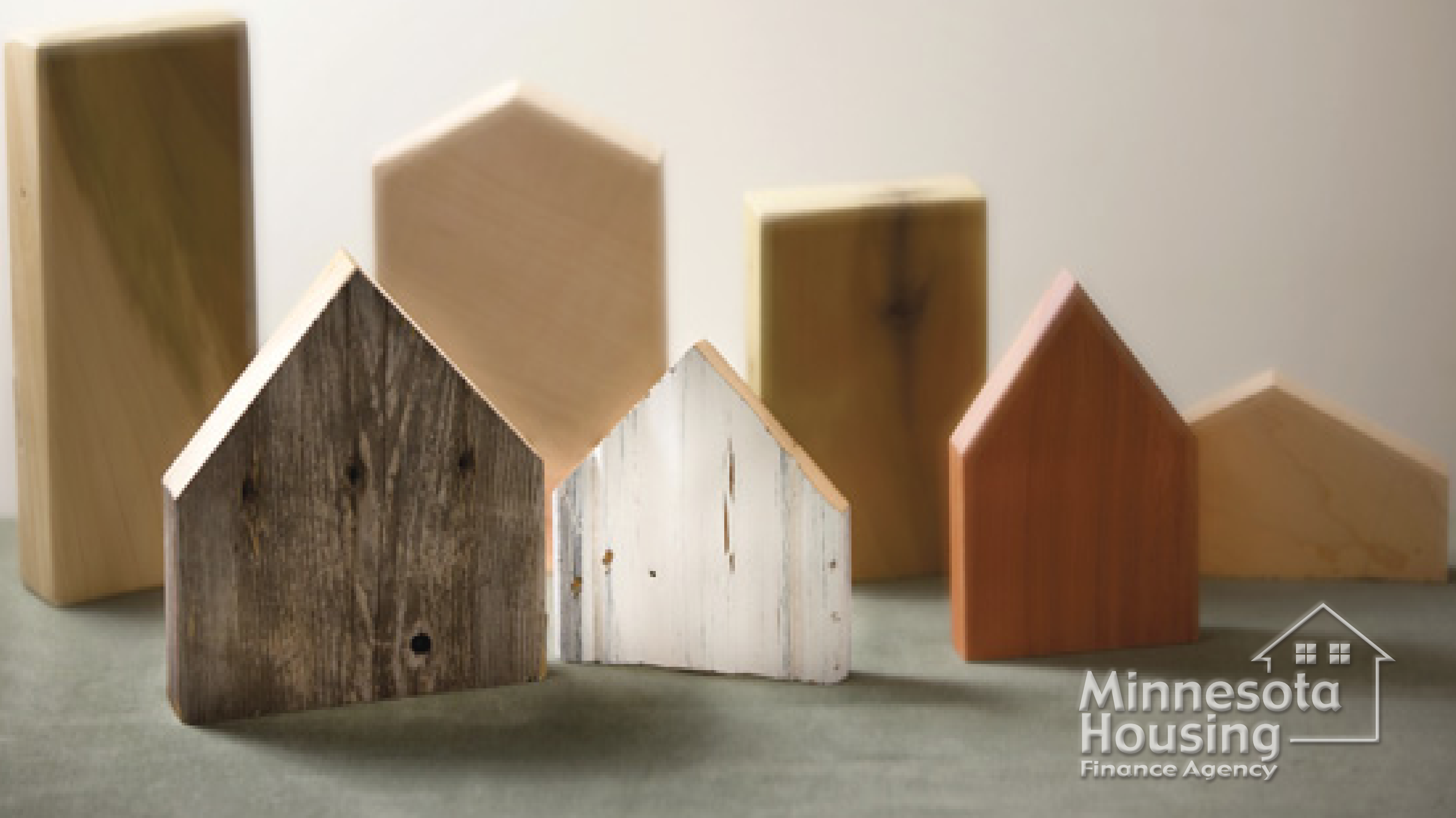
2012 Financial Report



Minnesota Housing Finance Agency

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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.

Condensed Financial Information

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)

		General Reserve	Bond Funds: Rental Housing	Bond Funds: 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, uncollateralized 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		Multifamily Housing	
	Principal	Interest	Principal	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	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 from								
	Funds	General Reserve	Rental Housing	Residential Housing Finance	Single Family	Home-ownership Finance	Multifamily Housing	State Appropriated	Federal Appropriated	Total
Due to	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 from								
	Funds	General Reserve	Rental Housing	Residential Housing Finance	Single Family	Home-ownership Finance	Multifamily Housing	State Appropriated	Federal Appropriated	Total
Transfer to	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 to: Funds	Transfer from: 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 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	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
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 Fam-

Net Assets

ily 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			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
Single Family	Home-ownership Finance	Multifamily Housing					
$ -	$ 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			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
	Single Family	Home-ownership Finance	Multifamily Housing					
	$ 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

MINNESOTA HOUSING FINANCE AGENCY
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: 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	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
$ 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

Legal and Financial Services

Bond Trustee and Bond Paying Agent
Wells Fargo Bank, National Association

Bond Counsel
Kutak Rock LLP, Atlanta

Financial Advisor
CSG Advisors Incorporated

Underwriters
RBC Capital Markets, Morgan Stanley, Piper Jaffray & Co.

Certified Public Accountants
CliftonLarsonAllen® LLP

Location

Minnesota Housing is located at 400 Sibley Street, Suite 300, Saint 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.mnhousing.gov

If you use a text telephone or Telecommunications Device for the Deaf, you may call (651) 297-2361.

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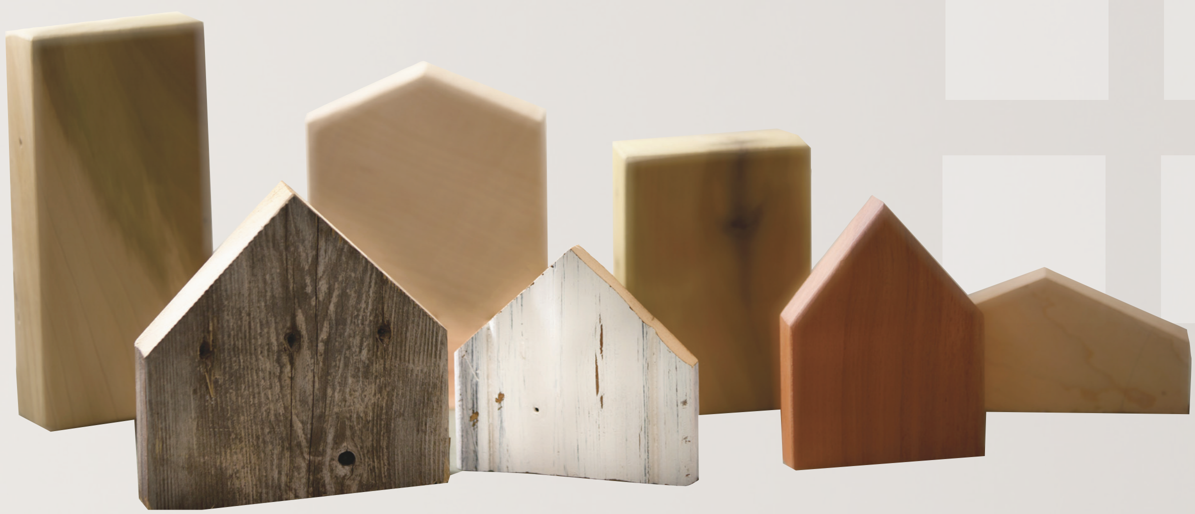
Our Mission:

Minnesota Housing finances affordable housing for low- and moderate-income households while fostering strong communities.



Minnesota Housing
Finance Agency

400 Sibley Street, Suite 300
Saint Paul, MN 55101
Phone 651-296-7608
Toll-free 800-657-3769
TTY 651-297-2361
www.mnhousing.gov

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