

NOTICE

\$150,750,000

Minnesota Housing Finance Agency

\$50,945,000 Residential Housing Finance Bonds, 2012 Series A (MT)

\$8,830,000 Residential Housing Finance Bonds 2012 Series B (Non-AMT)

\$30,975,000 Residential Housing Finance Bonds 2012 Series C (Non-AMT)

\$60,000,000 Residential Housing Finance Bonds 2012 Series D (Non-AMT))

Official Statement, dated March 28, 2012

The Official Statement, dated March 28, 2012, has been posted on this website as a matter of convenience. The posted version of the Official Statement has been formatted in Adobe Portable Document Format (Adobe Acrobat 10.0). Although this format should replicate the Official Statement distributed on behalf of the Agency in connection with the issuance of the bonds, the appearance may vary for a number of reasons, including electronic communication difficulties or particular user software or hardware. Using software other than Adobe Acrobat 10.0 may cause the Official Statement that you view or print to differ from the Official Statement.

The posting of the Official Statement is not an offer to sell or a solicitation of an offer to buy any Bonds. *Under no circumstances shall the Official Statement constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Bonds in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.*

The Agency may remove this copy of the Official Statement from this website at any time.

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

**\$150,750,000****Minnesota Housing Finance Agency****\$50,945,000 Residential Housing Finance Bonds, 2012 Series A (AMT)****\$8,830,000 Residential Housing Finance Bonds, 2012 Series B (Non-AMT)****\$30,975,000 Residential Housing Finance Bonds, 2012 Series C (Non-AMT)****\$60,000,000 Residential Housing Finance Bonds, 2012 Series D (Non-AMT)[†]****Dated Date: Date of Delivery****Due: As shown on inside front cover**

<i>Tax Exemption</i>	Interest on the above-described bonds (collectively, the "Series Bonds") is not includable in gross income for federal income tax purposes or taxable net income of individuals, trusts and estates for Minnesota income tax purposes. (For additional information, including further information on the application of federal and state alternative minimum tax provisions to the Series Bonds, see "Tax Exemption and Related Considerations" herein.)
<i>Redemption</i>	All or a portion of the Series Bonds are subject to optional, special, and mandatory redemption, including redemption at par, without premium, as described under "The Series Bonds" herein.
<i>Security</i>	The Series Bonds are secured, on a parity with Outstanding Bonds heretofore or hereafter issued under the Bond Resolution, by a pledge of Bond proceeds, Program Obligations, Investment Obligations, Revenues and other assets held under the Bond Resolution, except as otherwise expressly provided therein. The Series Bonds are also general obligations of the Agency, payable out of any of its generally available moneys, assets or revenues. <i>The Agency has no taxing power. The State of Minnesota is not liable for the payment of the Series Bonds and the Series Bonds are not a debt of the State.</i> (See "Security for the Bonds" herein.)
<i>Interest Payment Dates</i>	January 1 and July 1, commencing January 1, 2013, and, in respect of a Series Bond to be redeemed, the redemption date.
<i>Denominations</i>	\$5,000 or any integral multiple thereof.
<i>Closing/Settlement</i>	April 26, 2012 through the facilities of DTC in New York, New York.
<i>Bond Counsel</i>	Kutak Rock LLP, Atlanta, Georgia.
<i>Underwriters' Counsel</i>	Dorsey & Whitney LLP, Minneapolis, Minnesota.
<i>Trustee</i>	Wells Fargo Bank, National Association, in Minneapolis, Minnesota.
<i>Book-Entry-Only System</i>	The Depository Trust Company. See Appendix F hereto.

The Series Bonds are offered, when, as and if issued, subject to withdrawal or modification of the offer without notice and to the opinion of Kutak Rock LLP, Atlanta, Georgia, Bond Counsel, as to the validity of, and tax exemption of interest on, the Series Bonds.

RBC Capital Markets**Morgan Stanley****Piper Jaffray & Co.****Morgan Keegan**

The date of this Official Statement is March 28, 2012.

[†]Interest not included in the calculation of adjusted current earnings of corporations for purposes of the federal alternative minimum tax. (See "Tax Exemption and Related Considerations" herein.)

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND PRICES

2012 Series A Bonds (AMT)

<u>Due</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>CUSIP*</u>	<u>Due</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>CUSIP*</u>
January 1, 2013	\$ 505,000	0.75%	60416SAA8	July 1, 2018	\$2,530,000	2.85%	60416SAM2
July 1, 2013	2,200,000	0.85	60416SAB6	January 1, 2019	2,580,000	3.05	60416SAN0
January 1, 2014	2,220,000	1.10	60416SAC4	July 1, 2019	2,630,000	3.10	60416SAP5
July 1, 2014	2,245,000	1.20	60416SAD2	January 1, 2020	2,675,000	3.35	60416SAQ3
January 1, 2015	2,275,000	1.50	60416SAE0	July 1, 2020	2,730,000	3.40	60416SAR1
July 1, 2015	2,300,000	1.60	60416SAF7	January 1, 2021	2,790,000	3.55	60416SAS9
January 1, 2016	2,335,000	1.85	60416SAG5	July 1, 2021	2,855,000	3.55	60416SAT7
July 1, 2016	2,370,000	1.95	60416SAH3	January 1, 2022	2,920,000	3.75	60416SAU4
January 1, 2017	2,405,000	2.25	60416SAJ9	July 1, 2022	2,990,000	3.75	60416SAV2
July 1, 2017	2,445,000	2.35	60416SAK6	January 1, 2023	2,460,000	3.90	60416SAW0
January 1, 2018	2,485,000	2.75	60416SAL4				

Price of 2012 Series A Bonds — 100%

2012 Series B Bonds (Non-AMT)

<u>Due</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>CUSIP*</u>	<u>Due</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>CUSIP*</u>
January 1, 2023	\$ 605,000	3.30%	60416SAX8	January 1, 2024	\$3,215,000	3.45%	60416SAZ3
July 1, 2023	3,135,000	3.30	60416SAY6	July 1, 2024	1,875,000	3.45	60416SBA7

Price of 2012 Series B Bonds — 100%

2012 Series C Bonds (Non-AMT)

\$8,235,000 3.625% Term Bonds Due July 1, 2025 at 100% (CUSIP 60416SBB5*)
\$22,740,000 3.85% Term Bonds Due January 1, 2029 at 100% (CUSIP 60416SBC3*)

2012 Series D Bonds (Non-AMT)[†]

\$16,465,000 3.90% Term Bonds Due July 1, 2030 at 100% (CUSIP 60416SBD1*)
\$43,535,000 4.00% Term Bonds Due July 1, 2040 at 106.403% (CUSIP 60416SBE9*)

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

[†]Interest not included in the calculation of adjusted current earnings of corporations for purposes of the federal alternative minimum tax. (See "Tax Exemption and Related Considerations" herein.)

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

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

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

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

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

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OFFICIAL STATEMENT
relating to
\$150,750,000
MINNESOTA HOUSING FINANCE AGENCY
RESIDENTIAL HOUSING FINANCE BONDS,
2012 SERIES A, 2012 SERIES B, 2012 SERIES C AND 2012 SERIES D

This Official Statement (which includes the cover page, inside front cover and Appendices) provides certain information concerning the Minnesota Housing Finance Agency (the "Agency"), created by Minnesota Statutes, Chapter 462A, as amended (the "Act"), and its Residential Housing Finance Bonds, 2012 Series A (the "2012 Series A Bonds"), 2012 Series B (the "2012 Series B Bonds"), 2012 Series C (the "2012 Series C Bonds"), and 2012 Series D (the "2012 Series D Bonds" and, collectively with the 2012 Series A Bonds, the 2012 Series B Bonds and the 2012 Series C Bonds, the "Series Bonds"), in connection with the offering and sale of the Series Bonds by the Agency and for the information of all who may become initial owners of the Series Bonds.

The Series Bonds are being issued pursuant to the Act, a resolution of the Agency adopted as amended and restated on August 24, 1995, and as heretofore or hereafter further amended and supplemented in accordance with its terms (the "Bond Resolution"), and a series resolution of the Agency adopted on March 22, 2012 (the "2012 Series Resolution"). (The Bond Resolution and the 2012 Series Resolution are herein sometimes referred to as the "Resolutions.")

The Residential Housing Finance Bonds Outstanding in the aggregate principal amount of \$1,520,535,000 as of December 31, 2011, under the Bond Resolution, and any additional Residential Housing Finance Bonds hereafter issued pursuant to the Bond Resolution, including the Series Bonds, will be equally and ratably secured thereunder (except as otherwise expressly provided therein) and are herein sometimes called the "Bonds."

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

INTRODUCTION

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

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

Since its creation in 1971, the Agency has issued bonds to purchase single family mortgage loans, to purchase home improvement loans and to finance multifamily developments. In addition to financing loans through the issuance of debt, the Agency finances grants and loans through State and federal appropriations and its Alternative Loan Fund in the Residential Housing Finance Bond Fund. Please refer to the comments under the heading "Net Assets Restricted by Covenant" in the notes to the financial statements included in Appendix A to this Official Statement.

Prior to the fall of 2009, the Agency implemented its single-family mortgage lending program under the Bond Resolution by purchasing "whole loans" from lenders and financing such purchases with proceeds of its Bonds. In September 2009, the Agency changed implementation of its program by acquiring mortgage-backed securities guaranteed as to timely payment of principal and interest by the Government National Mortgage Association ("GNMA"), the Federal National Mortgage Association ("Fannie Mae") or the Federal Home Loan

Mortgage Corporation (“Freddie Mac”) (as defined in the Resolutions, “Program Securities”) instead of directly acquiring mortgage loans from lenders.

The Series Bonds are being issued to refund certain outstanding single family mortgage bonds of the Agency (the “Refunded Bonds”) and to provide money for the Agency to be applied, with certain funds of the Agency, to continue its Program (A) by purchasing Program Securities guaranteed as to timely payment of principal and interest by GNMA (“GNMA Securities”), Fannie Mae (“Fannie Mae Securities”) or Freddie Mac (“Freddie Mac Securities”) and backed by pools of mortgage loans (i) insured by the Federal Housing Administration (the “FHA”) of the United States Department of Housing and Urban Development (“HUD”) pursuant to the National Housing Act of 1934, as amended (the “Housing Act”), (ii) guaranteed by the Veterans Administration (“VA”) pursuant to the Servicemen’s Readjustment Act of 1944, as amended, (iii) guaranteed by USDA Rural Development (formerly Rural Economic and Community Development) (“USDA Rural Development”), under its Guaranteed Rural Housing Loan Program, or (iv) insured by private mortgage insurance issued by an entity acceptable to Fannie Mae or Freddie Mac or having certain loan-to-value ratios or other characteristics acceptable to Fannie Mae or Freddie Mac (“Program Loans”), which have been made by certain mortgage lending institutions (the “Lenders”) to qualified persons or families of low and moderate income to finance the purchase of single-family residences in Minnesota, (B) by depositing certain amounts into the Debt Service Reserve Fund, and (C) by paying costs of issuance of the Series Bonds. As a result of the refunding of the Refunded Bonds, certain Program Loans allocable to certain of the Refunded Bonds will become allocated to the Series Bonds. (See “Estimated Sources and Uses of Funds.”)

The Series Bonds are secured, on a parity with Outstanding Bonds heretofore and hereafter issued under the Bond Resolution (except as otherwise expressly provided therein), by a pledge of all Program Obligations, Investment Obligations, Revenues and other assets held and received by the Agency pursuant to the Bond Resolution. Under the Bond Resolution, the Agency is authorized to acquire Program Obligations in connection with Housing, which is defined to include single family loans, home improvement loans, multifamily loans and other housing related loans, and to secure such loans in such manner as the Agency determines, which would include first mortgage loans, subordinate mortgage loans or loans that are unsecured. The Program Obligations acquired with the proceeds of Bonds have primarily consisted of Program Loans comprising single family housing loans secured by first or subordinate mortgages. In addition, certain home improvement loans have been financed as Program Obligations by a single series of Bonds issued under the Bond Resolution. Certain proceeds of the Series Bonds not used to refund the Refunded Bonds are expected to be applied to acquire Program Securities backed by qualifying single family first mortgage loans. The Agency does not currently anticipate that future Series of Bonds issued under the Bond Resolution will finance Program Obligations other than Program Securities backed by single family loans or certain home improvement loans. (See “Security for the Bonds” and “Appendix D – Summary of Certain Provisions of the Bond Resolution.”)

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

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

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

THE AGENCY

Purpose

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

Structure

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

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

Kenneth R. Johnson, Chairman – Term expires January 2015, Woodbury, Minnesota – Retired
Economic Development Executive

The Honorable *Rebecca Otto* — *Ex officio*, St. Paul, Minnesota – State Auditor

Joseph Johnson III, Vice Chairman — Term expires January 2013, Duluth, Minnesota – Banker

Steven Johnson, Member — Term expires January 2014, Apple Valley, Minnesota – Chief
Financial Officer

Gloria J. Bostrom, Member — Term expires January 2016, Roseville, Minnesota – Retired

Barbara Sanderson, Member — Term expires January 2012, Grand Rapids, Minnesota –
Writer/Facilitator*

Stephanie Klinzing, Member – Term expires January 2015, Elk River, Minnesota – Writer and
Publisher

*Serves until a successor has been appointed.

Staff

The staff of the Agency presently consists of approximately 200 persons, including professional staff members who have responsibilities in the fields of finance, law, mortgage underwriting, architecture, construction inspection and housing management. The Attorney General of the State of Minnesota provides certain legal services to the Agency.

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

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

Mary Tingerthal — Commissioner. Ms. Tingerthal was appointed Commissioner effective February 1, 2011. Before her appointment, Ms. Tingerthal was President of Capital Markets Companies for the Housing

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

Barbara Sporlein — Deputy Commissioner, appointed effective November 7, 2011. Her primary responsibilities are talent management, agency-wide planning, inter-agency collaboration, and credit risk management. Prior to this position, Ms. Sporlein was the Director of Planning for the City of Minneapolis between 2004 and 2011. As Planning Director she was responsible for the City's long range planning, transportation planning, development consultation and review, heritage preservation, environmental review, public art program, and zoning administration and enforcement. Prior to that position, Ms. Sporlein served as the Deputy Director of the Saint Paul Public Housing Agency between 1994 and 2004, and as a City Planner for the City of Saint Paul from 1990 to 1994. Ms. Sporlein has a Bachelor of Science Degree in Geography from the University of Wisconsin-Madison, a Master of Planning Degree from the Humphrey School of Public Affairs at the University of Minnesota, and a Certificate in Advanced Studies in Public Administration from Hamline University. Ms. Sporlein serves on the Board of Directors for the Daniel Rose Center for Public Leadership in Land Use, and is a member of the Citizens League, the Urban Land Institute, the Minnesota Chapter of National Association of Housing and Redevelopment Organizations, and the American Planning Association. Ms. Sporlein is a Certified Public Housing Manager and Housing Finance Professional.

Don Wyszynski — Chief Financial Officer, appointed effective September 16, 2011. Mr. Wyszynski has served as the Agency's Director of Financial Strategy since September 2006, and has previous experience working for the Agency as Finance Director (1976-1978) and Deputy Director (1978-1981). In between, he was an investment banker for RBC Capital Markets and its predecessor companies from 1991 to 2006 working with various municipal issuers and housing finance agencies in the Midwest, and from 1981 to 1991 he served as a municipal financial advisor for Evensen Dodge Inc. Mr. Wyszynski started his professional career as a public accountant, and has a Bachelors degree in Business Administration from the University of Minnesota.

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

Paula Beck — General Counsel, appointed effective October 26, 2011. Ms. Beck's previous experience with the Agency includes her role as Counsel from 2009 until her General Counsel appointment and as an Assistant Attorney General representing the Agency from 1999 to 2004. From 2004 to 2009, Ms. Beck served as Associate General Counsel for Sherman Associates, Inc., a Minneapolis-based developer of residential and commercial real estate, including affordable housing, and from 1997 to 1999, she was an associate at the Minneapolis-based law firm of Leonard, Street and Deinard. Ms. Beck earned her law degree from Harvard Law School and holds a Bachelor of Arts degree from Swarthmore College in Pennsylvania.

Michael A. Haley — Assistant Commissioner, Minnesota Single Family Division since September 1980. From January 1972 to September 1980, he was Assistant Vice President of the Marquette National Bank of Minneapolis with responsibility for the Bank's residential mortgage operations which included secondary market sales and operations, business development and mortgage loan underwriting and approval. Mr. Haley has a Masters

degree in Business Administration and a Bachelor of Arts degree from the University of St. Thomas, St. Paul, Minnesota. Mr. Haley also is a graduate of the Mortgage Bankers Association of America School of Mortgage Banking.

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

Independent Auditors

The financial statements of the Agency as of and for the year ended June 30, 2011, included in this Official Statement as Appendix A have been audited by LarsonAllen LLP, independent auditors, as stated in their report appearing herein.

The auditors have not performed any agreed-upon procedures in respect of any financial statements of the Agency after June 30, 2011.

Financial Statements of the Agency

The Agency financial statements included in this Official Statement as Appendix A as of and for the fiscal year ended June 30, 2011 are presented in combined "Agency-wide" form followed by "fund" financial statements presented for its major funds in order to comply with the requirements of Statement No. 34 of the Governmental Accounting Standards Board.

In Appendix B to this Official Statement, the Agency has included certain unaudited financial statements of the Agency (excluding State Appropriated and Federal Appropriated Funds) as of and for the six months ended December 31, 2011. The information in Appendix B has been prepared by the Agency and, in the opinion of the Agency, reflects all normal recurring adjustments and information necessary for a fair statement of the financial position and results of operations of those Funds for the period, subject to year-end adjustments. The information in Appendix B is not accompanied by a statement from the independent auditors

Disclosure Information

The Agency will covenant in a Continuing Disclosure Undertaking for the benefit of the Owners and Beneficial Owners (as defined in Appendix C hereto) of the Series Bonds to provide annually certain financial information and operating data relating to the Agency (the "Agency Annual Report") and to provide notices of the occurrence of certain enumerated events. (There is no other obligated person under the Continuing Disclosure Undertaking.) The Agency Annual Report is to be filed by the Agency no later than 120 days after the close of each fiscal year, commencing with the fiscal year ending June 30, 2012, with the Municipal Securities Rulemaking Board, at its internet repository named "Electronic Municipal Market Access" ("EMMA"). The notices of the occurrence of events, if any, are also to be filed with EMMA. (See "Appendix C — Summary of Continuing Disclosure Undertaking.")

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

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

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

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

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

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

Under the investment guidelines effective July 1, 2007 (as amended by a resolution adopted September 24, 2009), the required size of Pool 1 (which is intended to be a liquidity reserve) is 1% of gross loans receivable (excluding mortgage-backed securities, appropriated loans and loans credited to Pool 3) and the required size of Pool 2 is an amount that would cause the combined net assets (exclusive of unrealized gains and losses resulting from marking to market investment securities, including mortgage-backed securities, and swaps entered into by the Agency for which the unrealized loss or gain will not be realized if the security or swap is held to maturity or its optional termination date) in the General Reserve, in Pool 2, and in the funds pledged under bond resolutions to be the greater of \$615 million or the combined net assets of the same funds as of the immediately preceding fiscal year end. Currently, this amount is \$674.5 million, representing the combined net assets of these funds so calculated as of June 30, 2011. Pool 2 is intended to comprise amortizing interest-bearing housing loans or investment grade securities. Pool 1 and Pool 2 represent, with assets pledged to pay bonds of the Agency, the sustainable lending operations of the Agency. Pool 3 represents the more mission-intensive operations of the Agency and is intended to comprise deferred, zero percent and low interest-rate loans and grants and, for unapplied funds, investment grade securities. Pool 3 is not subject to the investment guidelines. Loan activity related to loans financed by funds in Pool 2 and Pool 3 is recorded as part of the Alternative Loan Fund. All interfund transfers are approved by the Agency. A further discussion of Pools 1, 2 and 3 and the amounts credited thereto as of June 30, 2011 appears in the notes to the financial statements of the Agency included in Appendix A under the heading “Net Assets Restricted by Covenant” at pages 53 and 54 therein (however, the amounts of the Pool 2 requirement as of June 30, 2011 and June 30, 2010 on page 53 therein stated as combined net assets fail to exclude unrealized gains and losses as described above and thus overstate the Pool 2 requirement).

The following summary indicates the revenues earned, the expenses paid, and funds transferred to and from the General Reserve (which contains Pool 1 and net investment in capital assets), for the two most recent audited fiscal years of the Agency and for the six-month period ended December 31, 2011 (unaudited) (in thousands):

	Six Months Ended December 31, 2011 <u>(unaudited)</u>	Fiscal Year Ended <u>June 30, 2011</u>	Fiscal Year Ended <u>June 30, 2010</u>
Revenues			
Fees earned and other income ⁽¹⁾	\$ 4,413	\$10,289	\$ 8,907
Interest earned on investments	(11)	292	342
Unrealized gain (loss) on investments	70	(95)	25
Administrative reimbursement ^{(2), (3)}	<u>10,812</u>	<u>20,733</u>	<u>21,658</u>
Total revenues	15,284	31,219	30,932
Expenses			
Salaries and benefits	8,557	17,716	17,815
Other general operating expenses	<u>3,029</u>	<u>5,714</u>	<u>8,820</u>
Total expenses	11,586	23,430	26,635
Revenues over expenses	3,698	7,789	4,297
Non-operating transfer of assets between funds ⁽⁴⁾	(5,365)	(10,029)	(6,794)
Change in net assets	(1,667) ⁽⁵⁾	(2,240) ⁽⁵⁾	(2,497) ⁽⁵⁾
Net assets beginning of period	<u>21,929</u>	<u>24,169</u>	<u>26,666</u>
Net assets end of period	<u>\$20,262</u>	<u>\$21,929</u>	<u>\$24,169</u>

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- (1) Fees earned consist primarily of fees collected in conjunction with the administration of the low income housing tax credit program and HUD contract administration of certain non-Agency financed Section 8 developments.
 - (2) Reimbursement from bond funds are transferred to the General Reserve in accordance with the Agency's Affordable Housing Plan based on adjusted assets. Adjusted assets are defined generally as total assets excluding the reserve for loan loss, unearned discounts on loans, premiums on loans, unamortized bond issuance costs, unrealized gains or losses on investments (including mortgage-backed securities and interest rate swap agreements), deferred loss on interest rate swap agreements and assets relating to escrowed debt.
 - (3) Reimbursement from appropriated accounts consists of the portion of direct and indirect costs of administering the programs funded by the appropriations. Costs associated with administering state appropriations are recovered only to the extent of interest earnings on the appropriations. Costs associated with administering federal appropriations generally are recovered from the appropriations.
 - (4) Excess assets from bond funds may be transferred to the General Reserve to the extent permitted by the resolution or indenture securing bonds of the Agency. In addition, funds in excess of the requirement for Pool 1 may be transferred from the General Reserve to the Alternative Loan Fund. See the comments under the heading "Net Assets Restricted by Covenant" in the notes to the financial statements of the Agency in Appendix A to this Official Statement for additional information.
 - (5) The significant reductions in net assets for fiscal years 2010 and 2011 and the first six months in fiscal year 2012 reflect the reduction in the amount required to be retained in Pool 1 under the investment guidelines described above due to the fact that the Agency's whole loan single family mortgage loan portfolio is in runoff (as a result of transition to an MBS model (see "The Residential Housing Finance Program—History and Transition to 'MBS' Model")). In addition, for each period there has also been a reduction in the carrying amount of certain net assets invested in capital assets.

State Appropriations

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

Over the past five years, appropriations to the Agency have totaled approximately \$293.6 million. Because of estimated State budget deficits for the biennium ended June 30, 2009, the Governor, among other actions, reduced

by executive action the Agency's uncommitted and unexpended appropriations by \$4 million, reducing the Agency's appropriations for that biennium to \$129.6 million. For the biennium ended June 30, 2011, the Legislature appropriated approximately \$86.7 million to the Agency. To balance the budget in the first fiscal year of that biennium, the Governor effected unallotments in the aggregate amount of \$695 million, including \$512,000 of funds otherwise appropriated to the Agency. The Legislature adopted a supplemental budget bill reducing appropriations to the Agency in that biennium by an additional \$4.2 million.

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

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

Agency Indebtedness

The principal amount of bonds and notes of the Agency which are outstanding at any time (excluding the principal amount of any refunded bonds and notes) is limited to \$5,000,000,000 by State statute. The following table lists the principal amounts of general obligation indebtedness of the Agency outstanding as of December 31, 2011:

	Number of Series*	Final Maturity	Original Principal Amount* (in thousands)	Principal Amount Outstanding (in thousands)
Rental Housing Bonds	27	2047	\$ 496,895	\$ 149,670
Residential Housing Finance Bonds.....	64	2048	2,191,280	1,520,535
Single Family Mortgage Bonds.....	24	2035	505,215	86,890
Homeownership Finance Bonds.....	14	2041	549,675	547,895
Multifamily Housing Bonds (Treasury HFA Initiative)	1	2051	15,000	15,000
Total Debt Outstanding	130		\$3,758,065	\$2,319,990

*Does not include series of bonds or the original principal amount of any bonds that had been, as of December 31, 2011, defeased or paid in full, whether at maturity or earlier redemption.

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

The Agency has entered into certain liquidity facilities and interest rate swap agreements in respect of certain of its outstanding Bonds that bear interest at a variable rate and are subject to optional and mandatory tender. Certain information related to such variable rate bonds and swap agreements is included in the notes to the audited financial statements contained in Appendix A to this Official Statement and in the unaudited financial statements contained in Appendix B to this Official Statement. No representation is made as to the creditworthiness of any provider or counterparty on such facilities and agreements. On March 28, 2012, the Agency consented to the assignment by UBS AG, Stamford Branch, to The Bank of New York Mellon of the outstanding swap agreements relating to the 2003 Series B, 2003 Series J, 2005 Series C, 2006 Series C, 2007 Series S, and 2007 Series T Bonds. There was no change in the financial terms of the swap agreements and the Agency made no payments to either UBS AG, Stamford Branch, or the Bank of New York Mellon in connection with the novation of the swap agreements.

The Agency has issued its limited obligation notes from time to time for the purpose of preserving private activity bond volume cap by refunding the maturing principal or redemption price, as the case may be, of bonds previously issued by the Agency or by issuing a new money obligation. As of December 31, 2011, no such limited obligation notes were outstanding.

In 2009, the Agency issued \$13,270,000 in aggregate principal amount of its Nonprofit Housing Bonds (State Appropriation), Series 2009, to finance permanent supportive housing in two different multifamily housing developments. In 2011, the Agency issued \$21,750,000 in aggregate principal amount of its Nonprofit Housing

Bonds (State Appropriation), Series 2011, to finance permanent supportive housing in five additional multifamily housing developments. Both series of bonds were issued under a separate indenture of trust, are not general obligations of the Agency and are not payable from any funds or assets of the Agency other than the appropriations the Agency expects to receive from the State General Fund pursuant to a standing appropriation made by the Legislature in 2008.

Disruptions in Mortgage and Financial Markets

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

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

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

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

ESTIMATED SOURCES AND USES OF FUNDS

Certain proceeds of the Series Bonds will be applied to the purchase of Program Securities. Other proceeds of the Series Bonds will be applied to refund the Refunded Bonds and, as a result, certain mortgage loans financed by the Refunded Bonds will become allocated to the Series Bonds (the "Transferred Program Loans"). Upon giving effect to the foregoing transactions and the receipt of certain transferred money and mortgage loans, the estimated sources and uses of funds related to the Series Bonds are as follows:

Sources

Principal amount of Series Bonds	\$150,750,000
Original issue premium	2,787,546
Transferred Program Loans	100,241,086
Transferred funds	<u>4,469,601</u>
Total Sources of Funds	<u>\$258,248,233</u>

Uses

Deposit to 2012 Series A-B-C-D Acquisition Account	
Funds to acquire Program Securities	\$ 61,191,391
Transferred Program Loans	100,241,086
Redemption of Refunded Bonds	90,880,000
Deposit to Costs of Issuance Account.....	250,000
Deposit to Debt Service Reserve Account.....	4,522,500
Underwriters' Compensation	<u>1,163,256</u>
Total Uses of Funds	<u>\$258,248,233</u>

Upon issuance of the Series Bonds and as a result of the refunding of the Refunded Bonds, the Transferred Program Loans will be credited to the 2012 Series A-B-C-D Acquisition Account. The Transferred Program Loans, with an unpaid principal amount of approximately \$100,241,000, have a weighted average maturity of approximately 250 months and a weighted average interest rate of approximately 5.86% per annum. Revenues from the Transferred Program Loans may constitute Excess Revenues (as defined under “The Series Bonds—Special Redemption—Excess Revenues” herein) and the Agency may, but is not obligated to, use such Excess Revenues to redeem Bonds, including the Series Bonds, except as otherwise described under “The Series Bonds—Special Redemption.”

Based on the Program Securities that the Agency has purchased from its own funds and Program Loans that have been purchased or committed by the Master Servicer and absent material changes in the market, the Agency expects to apply approximately \$10 million of proceeds of the Series Bonds in the 2012 A-B-C-D Acquisition Account to purchase Program Securities on or shortly after the date of issuance of the Series Bonds and disburse all such proceeds by September 1, 2012. Any such Program Securities purchased from the Agency will be credited to the 2012 A-B-C-D Acquisition Account and thereby pledged to the payment of Outstanding Bonds. (See “The Residential Housing Finance Program – Reimbursement of Advances of Agency Funds from Proceeds of Series Bonds.”)

THE SERIES BONDS

General

The Series Bonds of each series are issuable only as fully registered bonds in the denominations of \$5,000 or any integral multiple thereof of single maturities and will initially be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York (“DTC”), which will act as securities depository for each series of the Series Bonds. Wells Fargo Bank, National Association, Minneapolis, Minnesota, serves as Trustee under the Bond Resolution. Interest on the Series Bonds is payable by moneys wired by the Trustee to DTC, or its nominee, as registered owner of such Bonds, which interest is to be redistributed by DTC. Principal of the Series Bonds is payable at maturity or earlier redemption upon surrender at the principal corporate trust office of the Trustee. See “Appendix F — Book-Entry-Only System.”

For every exchange or transfer of Series Bonds, whether temporary or definitive, the Agency or the Trustee may make a charge sufficient to reimburse it for any tax, fee or other governmental charge required to be paid with respect to such exchange or transfer. The Series Bonds mature on the dates and in the amounts set forth on the inside front cover hereof, subject to prior redemption as hereinafter described.

Interest

The Series Bonds will bear interest from their dated date, payable semiannually on January 1 and July 1 of each year, commencing January 1, 2013, and, in respect of any Series Bond to be redeemed, on any redemption date, at the respective annual rates set forth on the inside front cover hereof until payment of the principal of or redemption price on such Series Bonds. Interest on the Series Bonds will be computed on the basis of a 360-day year composed of twelve 30-day months and will be payable to the Owners of record in the bond registration books maintained by the Trustee as of the 15th day of the month preceding the regularly scheduled interest payment date, whether or not a business day (the “Record Date” for the Series Bonds).

Sinking Fund Redemption

The 2012 Series C Bonds with a stated maturity on July 1, 2025 are subject to mandatory redemption in part on July 1, 2024 and on January 1, 2025, at the principal amount thereof to be redeemed plus accrued interest thereon, without premium, in the principal amounts as follows:

<u>Date</u>	<u>Principal Amount</u>	<u>Date</u>	<u>Principal Amount</u>
July 1, 2024	\$1,415,000	July 1, 2025 (maturity)	\$3,450,000
January 1, 2025	3,370,000		

The 2012 Series C Bonds with a stated maturity on January 1, 2029 are subject to mandatory redemption in part on January 1, 2026, and on each July 1 and January 1 thereafter to and including July 1, 2028 at the principal amount thereof to be redeemed plus accrued interest thereon, without premium, in the principal amounts as follows:

<u>Date</u>	<u>Principal Amount</u>	<u>Date</u>	<u>Principal Amount</u>
January 1, 2026	\$3,535,000	January 1, 2028	\$3,855,000
July 1, 2026	3,620,000	July 1, 2028	3,945,000
January 1, 2027	3,705,000	January 1, 2029 (maturity)	290,000
July 1, 2027	3,790,000		

The 2012 Series D Bonds with a stated maturity on July 1, 2030 are subject to mandatory redemption in part on January 1, 2029, and on each July 1 and January 1 thereafter to and including January 1, 2030 at the principal amount thereof to be redeemed plus accrued interest thereon, without premium, in the principal amounts as follows:

<u>Date</u>	<u>Principal Amount</u>	<u>Date</u>	<u>Principal Amount</u>
January 1, 2029	\$3,755,000	January 1, 2030	\$4,230,000
July 1, 2029	4,140,000	July 1, 2030 (maturity)	4,340,000

The 2012 Series D Bonds with a stated maturity on July 1, 2040 (the “PAC Bonds”) are subject to mandatory redemption in part on January 1, 2031, and on each January 1 and July 1 thereafter to and including January 1, 2040, at the principal amount thereof to be redeemed plus accrued interest thereon, without premium, on the dates and in the principal amounts as follows:

Date	Principal Amount	Date	Principal Amount
January 1, 2031	\$4,400,000	January 1, 2036	\$1,400,000
July 1, 2031	4,405,000	July 1, 2036	1,440,000
January 1, 2032	4,500,000	January 1, 2037	1,480,000
July 1, 2032	4,380,000	July 1, 2037	1,525,000
January 1, 2033	4,075,000	January 1, 2038	1,570,000
July 1, 2033	2,500,000	July 1, 2038	1,595,000
January 1, 2034	1,250,000	January 1, 2039	1,425,000
July 1, 2034	1,285,000	July 1, 2039	1,405,000
January 1, 2035	1,325,000	January 1, 2040	1,445,000
July 1, 2035	1,360,000	July 1, 2040 (maturity)	770,000

Upon redemption of Series Bonds of a series and maturity for which Sinking Fund Installments have been established or any purchase and cancellation in lieu thereof, the principal amount of such series and maturity of the Series Bonds so redeemed or purchased may be credited toward one or more Sinking Fund Installments for such series and maturity thereafter to become due in the manner specified by the Agency. The portion of any Sinking Fund Installment remaining after the deductions credited to such payments is the unsatisfied balance of such Sinking Fund Installment with respect to such series and maturity of the Series Bonds for the purpose of calculating the payment due on or scheduled for a future date.

Special Redemption

Unexpended Proceeds. The Series Bonds are subject to special redemption, at the option of the Agency, prior to maturity, at any time, in whole or in part, at a redemption price equal to the principal amount thereof to be redeemed plus accrued interest to the redemption date, without premium (except that any PAC Bonds are to be redeemed at a redemption price equal to the principal amount thereof to be redeemed plus accrued interest, plus the unamortized premium thereon as determined by the Agency by straight-line amortization of the original issue premium set forth on the inside front cover of this Official Statement between the date of issue and July 1, 2021 (as of which date the premium would reduce to \$0)), from moneys representing Series Bond proceeds not used to purchase Program Securities and transferred to the Bond Redemption Fund from the 2012 A-B-C-D Acquisition Account and any allocable amounts held in the Debt Service Reserve Fund. In the event any Series Bonds are to be redeemed as a result of unexpended proceeds, the Series Bonds are to be selected at random by the Trustee within a series and maturity from such series and maturities of the Series Bonds and in such amounts as shall be determined by the Agency.

If the Agency has not expended all proceeds of the Series Bonds credited to the 2012 A-B-C-D Acquisition Account and the Delivery Period has not been extended (see “The Residential Housing Finance Program—Acquisition of Program Securities”), then Series Bonds are subject to mandatory redemption from such unexpended proceeds upon the expiration of the Delivery Period at the redemption price specified above.

Based on the Program Securities that the Agency has purchased from its own funds and Program Loans that have been purchased or committed by the Master Servicer and absent material changes in the market, the Agency expects to apply approximately \$10 million of proceeds of the Series Bonds in the 2012 A-B-C-D Acquisition Account to purchase Program Securities on or shortly after the date of issuance of the Series Bonds and disburse all such proceeds by September 1, 2012. (See “The Residential Housing Finance Program – Reimbursement of Advances of Agency Funds from Proceeds of Series Bonds” for information with respect to Agency purchases of Program Securities and commitments and purchases by the Master Servicer of underlying Program Loans as of March 12, 2012.)

Excess Revenues. Any moneys on deposit in the Revenue Fund attributable to Excess Revenues may, in the Agency’s discretion and subject to the requirements of the Resolutions, be applied to the redemption, at any time, at a redemption price equal to the principal amount thereof to be redeemed plus accrued interest thereon, without premium, of Outstanding Bonds under the Bond Resolution (including the Series Bonds, but with respect to the PAC Bonds not in excess of the maximum cumulative redemption amounts shown below) from such series, maturities and Sinking Fund Installments as the Agency may select at its option; subject, however, to any provisions to the contrary in any Series Resolution relating to a Series of Bonds.

As used herein, “Excess Revenues” means the Revenues, including prepayments (except as described below under “Prepayments”), on deposit in the Revenue Fund received in excess of (i) the maturing principal and Sinking Fund Installments and any required mandatory redemptions, together with interest from time to time and payable, on Bonds Outstanding under the Bond Resolution, (ii) amounts needed to maintain the Debt Service Reserve Fund and the Insurance Reserve Fund at their respective Requirements, and (iii) amounts required by the Agency to pay fees and other costs in connection with the Bonds associated with maintaining the Program, including amounts to be paid under swap agreements, liquidity facilities, remarketing agreements and other similar instruments.

10-Year Rule Requirements. To comply with certain provisions of federal tax law, all available prepayments and regularly scheduled repayments of mortgage principal from Program Loans and Program Securities allocable to the Series Bonds (other than approximately \$13,200,000 of Transferred Program Loans which are not subject to the 10-year rule requirement described in this paragraph (the “Unrestricted Transferred Program Loans”)) and (i) with respect to proceeds of the Series Bonds allocated to the refunding of outstanding bonds of the Agency, received 10 years after the original issuance date of the bonds refunded, or (ii) with respect to the remaining proceeds of the Series Bonds, received 10 years or more after the issuance date of the Series Bonds, are required to be applied no later than the close of the first semiannual period beginning after the date of receipt to the retirement of the Series Bonds through payment thereof at maturity or by redemption; provided, no such redemption shall be required if the amount available and required to be used to redeem the Series Bonds is less than \$100,000. Prepayments and scheduled repayments of mortgage principal from Program Loans and Program Securities allocable to the Series Bonds (other than the Unrestricted Transferred Program Loans) received on or after the following dates are subject to the 10-year rule in the following approximate percentages:

<u>Dates</u>	<u>Percentages</u>
April 26, 2012 to April 25, 2022	58.97%
April 26, 2022 and thereafter	100.00

Prepayments. To the extent not needed to make regularly scheduled principal payments on the Series Bonds, either at maturity or pursuant to Sinking Fund Installments, all prepayments of mortgage principal from Program Loans and Program Securities allocable to the Series Bonds received by or on behalf of the Agency (such amounts herein referred to as the “Series ABCD Prepayments”) shall first be applied to redeem the PAC Bonds on a cumulative basis up to the Maximum Cumulative Amounts during each Redemption Period beginning on the date therefor set forth in the table below:

<u>Redemption Period</u>	<u>Maximum Cumulative Amounts†</u>	<u>Redemption Period</u>	<u>Maximum Cumulative Amounts†</u>
January 1, 2013	\$ 1,945,000	July 1, 2017	\$28,510,000
July 1, 2013	4,495,000	January 1, 2018	30,985,000
January 1, 2014	7,295,000	July 1, 2018	33,310,000
July 1, 2014	10,275,000	January 1, 2019	35,480,000
January 1, 2015	13,415,000	July 1, 2019	37,505,000
July 1, 2015	16,665,000	January 1, 2020	39,385,000
January 1, 2016	19,840,000	July 1, 2020	41,115,000
July 1, 2016	22,900,000	January 1, 2021	42,695,000
January 1, 2017	25,850,000	July 1, 2021	43,535,000

†Based on an approximation of 75% PSA prepayment speed. (See “Projected Weighted Average Lives of the PAC Bonds” below for a discussion of the PSA Prepayment Model.) Amounts actually to be redeemed pursuant to this provision will be reduced proportionately to the extent any of the PAC Bonds are redeemed from unexpended proceeds of the Series Bonds.

To the extent that Series ABCD Prepayments are insufficient to redeem PAC Bonds on a cumulative basis up to the Maximum Cumulative Amounts in accordance with the table set forth above, the Agency will apply then available Excess Revenues allocable to the Series Bonds (including Excess Revenues from the Transferred Program Loans (see “Estimated Sources and Uses of Funds”)) to redeem PAC Bonds up to such amounts.

To the extent PAC Bonds are to be redeemed more than once in a semiannual period or on a date that is not a regularly scheduled interest payment date, the Agency will not redeem PAC Bonds on a cumulative basis as of any date in an aggregate principal amount greater than the sum of (i) the Maximum Cumulative Amount in the table above for the immediately preceding regularly scheduled interest payment date and (ii) the proportionate amount (based on the number of days elapsed since the immediately preceding regularly scheduled interest payment date and the total number of days in the period (calculated on the basis of a 360-day year of twelve 30-day months)) of the difference between the Maximum Cumulative Amount set forth in the table above for the next succeeding regularly scheduled interest payment date and the Maximum Cumulative Amount for the immediately preceding regularly scheduled interest payment date.

To the extent Series ABCD Prepayments are received by the Agency sufficient to redeem PAC Bonds up to the Maximum Cumulative Amounts in accordance with the table above, any excess Series ABCD Prepayments are to be used as follows: (1) to the extent required by applicable federal tax law, (a) to redeem Outstanding Series Bonds (other than PAC Bonds) from such series and maturities as selected by the Agency, or (b) if no Series Bonds are Outstanding other than PAC Bonds, to redeem Outstanding PAC Bonds, in each case on any date, in whole or in part, at a price equal to the principal amount thereof to be redeemed plus accrued interest, without premium; or (2) to the extent not required by applicable federal tax law to redeem Series Bonds, at the option of the Agency, to redeem any Outstanding Bonds, including the Series Bonds (other than PAC Bonds) at a price equal to the principal amount thereof to be redeemed plus accrued interest, without premium (subject, however, to any provisions to the contrary in any Series Resolutions relating to Outstanding Bonds), or for any other purpose authorized under the Resolutions.

The Agency has used January 31, 2012 (the “Cut-off Date”) mortgage data in order to establish the size of the Series Bonds allocable to the refunding of the Refunded Bonds. Certain payments of principal with respect to mortgage loans allocable to the Refunded Bonds received after the Cut-off Date, together with certain principal payments received prior to such date, are required to be used to redeem Series Bonds as described under the heading “10-year Rule Requirements” above on or before January 1, 2013. As a result, it is anticipated that more repayments of mortgage principal from Program Loans and Program Securities allocable to the Series Bonds than might ordinarily be expected will be required to redeem Series Bonds on or before January 1, 2013.

Projected Weighted Average Lives of the PAC Bonds. The following information is provided to allow potential investors to evaluate the PAC Bonds which are the subject of special redemption described above.

The weighted average life of a bond refers to the average length of time that will elapse from the date of issuance of such bond to the date each installment of principal is paid weighted by the principal amount of such installment. The weighted average life of the PAC Bonds will be influenced by, among other things, the rate at which Program Securities are purchased and the rate at which principal payments (including scheduled payments and principal prepayments) are made on the Transferred Program Loans and the Program Securities allocable to the Series Bonds (collectively, the “Series Bond Program Loans”). An investor owning less than all of the PAC Bonds may experience redemption at a rate that varies from the average life of the PAC Bonds.

Levels of prepayment on mortgage loans are commonly measured by a prepayment standard or model. The standard used in this Official Statement is The Standard Prepayment Model of The Securities Industry and Financial Markets Association, formerly The Bond Market Association and formerly the Public Securities Association (the “PSA Prepayment Model”). The PSA Prepayment Model represents an assumed monthly rate of prepayment of the then outstanding principal balance of a pool of mortgage loans. The PSA Prepayment Model does not purport to be either an historical description of the prepayment experience of any pool of mortgage loans or a prediction of the anticipated rate of prepayment of any pool of mortgage loans, including Program Loans backing Program Securities financed with proceeds of the Series Bonds. “100% PSA” assumes prepayment rates of 0.2 percent per year of the then-unpaid balance of the pool of mortgage loans in the first month of the life of the pool of mortgage loans and an additional 0.2 percent per year in each month thereafter (for example, 0.4 percent per year in the second month) until the thirtieth month. Beginning in the thirtieth month and in each month thereafter during the life of the pool of mortgage loans, 100% PSA assumes a constant prepayment rate of 6 percent per year. Multiples will be calculated from this prepayment rate standard, e.g. “200% PSA” assumes prepayment rates will be 0.4 percent per year in month one, 0.8 percent per year in month two, reaching 12 percent per year in month thirty and remaining constant at 12 percent per year thereafter. “0% PSA” assumes no prepayments of principal of a pool of mortgage loans will occur for the life of the pool of mortgage loans.

The following table, entitled “Projected Weighted Average Lives for the PAC Bonds” assumes, among other things, that (i) the Transferred Program Loans have an unpaid principal amount of approximately \$100,241,000 with a weighted average maturity of approximately 250 months and a weighted average interest rate of approximately 5.86% per annum, (ii) the Series Bond Program Loans prepay at the indicated percentages of the PSA Prepayment Model, (iii) all proceeds of the Series Bonds in the 2012 A-B-C-D Acquisition Account are used to purchase Program Securities, (iv) all Program Securities financed with the proceeds of the Series Bonds will be acquired by September 1, 2012, (v) all scheduled principal and interest payments or prepayments on Series Bond Program Loans are received thirty days after the date on which due or assumed to be made and there are no foreclosures or repurchases of such Program Loans, (vi) the PAC Bonds are redeemed only on regularly scheduled interest payment dates, and (vii) the PAC Bonds are not redeemed pursuant to optional redemption or from Excess Revenues (other than Excess Revenues allocable to the Series Bonds (including Transferred Program Loans) if required to meet the Maximum Cumulative Amounts set forth in the table above). Based solely on such assumptions, some or all of which are unlikely to reflect actual experience, the following table provides projected weighted average life information for the PAC Bonds.

.Projected Weighted Average Lives for the PAC Bonds

PSA Prepayment	PAC Bonds Weighted Average Life [†]
0%	16.52 years
25	11.00
50	6.48
75	4.45
100	4.45
200	4.45
300	4.45
400	4.45
500	4.30

[†]The weighted average life may be affected if PAC Bonds are redeemed with Excess Revenues or from unexpended proceeds of the Series Bonds, as described above, or if redeemed on a date other than a regularly scheduled interest payment date.

No assurance can be given that prepayments of principal of the Series Bond Program Loans will conform to any level of a particular prepayment projection, schedule or model or that prepayments will be available to be applied to redemptions of any of the Series Bonds, including the PAC Bonds. The rates of principal prepayments on mortgage loans are generally influenced by a variety of economic, geographical, social and other factors, including servicing decisions, changing property values, prevailing interest rates and the time within which mortgage loans are originated. In general, if prevailing interest rates fall significantly below the interest rates on the mortgage loans, such mortgage loans may be likely to prepay at higher rates than if prevailing interest rates remain at or above the interest rates on such mortgage loans. Conversely, if prevailing interest rates rise above the interest rates on the mortgage loans, the rate of prepayments might be expected to decrease. Foreclosures or repurchases of Series Bond Program Loans will also affect the expected special redemption schedules. The Agency cannot predict the number of Series Bond Program Loans that may become delinquent, repurchased or foreclosed. For these reasons, the Agency cannot offer any assurances as to the rate at which the Series Bonds Program Loans will prepay and offers no assurance that the scheduled amounts will, in fact, be available to effect any redemptions described herein.

Optional Redemption of the Series Bonds

The Series Bonds with stated maturities on or after July 1, 2022 are also subject to redemption prior to their stated maturity dates at the option of the Agency, in whole or in part, from such series and in such amounts and from such stated maturities as the Agency may designate, on January 1, 2022 or any date thereafter, from any amounts available to the Agency for such purpose, at a redemption price equal to the principal amount thereof to be redeemed plus accrued interest to the date of redemption, without premium.

General Provisions

Except as otherwise provided in the 2012 Series Resolution, any Series Bonds to be redeemed other than upon mandatory sinking fund redemption shall be redeemed only upon receipt by the Trustee of a certificate signed

by an officer authorized by the Agency and stating: (a) the Series of the Series Bonds to be redeemed; and (b) the maturities and amounts within such Series from which Series Bonds are to be redeemed. If less than all Series Bonds of a series and maturity are to be redeemed, the Series Bonds of that series and maturity to be redeemed are to be selected at random by a method determined by the Trustee. The Agency shall not at any time cause Series Bonds to be redeemed (other than pursuant to mandatory redemption) if this would have any material adverse effect on its ability to pay when due the principal of and interest on the Bonds Outstanding after such redemption.

The Trustee is required to mail a copy of the notice of redemption, by first class mail, to the registered owner of any Series Bond called for redemption at least 30 days prior to the redemption date; said registered owner to be determined from the registry books as of the 15th day preceding date such notice is mailed. (See “Appendix F — Book-Entry-Only System.”)

SECURITY FOR THE BONDS

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

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

Cash Flow Certificate

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

Reserve Account or deposit in the Alternative Loan Fund, in each case upon the filing with the Trustee a Cash Flow Certificate and a Parity Certificate.

Program Obligations

General information concerning the Agency's Residential Housing Finance Program, the types of Program Obligations that have been and are expected to be financed with the proceeds of the Series Bonds is provided below under the heading "The Residential Housing Finance Program." The Agency expects that approximately \$60.6 million in aggregate principal amount of Program Securities will be acquired with proceeds of the Series Bonds and approximately \$100.2 million in aggregate unpaid principal amount of Transferred Program Loans will be transferred to the Bond Resolution as a result of the refunding of the Refunded Bonds and pledged to payment of Outstanding Bonds. (See "Estimated Sources and Uses of Funds.") Additional information regarding GNMA, Fannie Mae and Freddie Mac and Program Securities and the current Master Servicer is contained in Appendix J to this Official Statement.

Investment Obligations

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

Under the Bond Resolution, the Agency may direct the Trustee to invest funds held thereunder in investment agreements (sometimes referred to as "guaranteed investment contracts"), if such an investment agreement does not adversely affect any ratings of the Bonds at the time of execution thereof. Summary information concerning funds held in respect of Bonds under the Bond Resolution that are invested in investment agreements as of December 31, 2011, is set forth below:

Investment Agreement Providers as of December 31, 2011 (unaudited) (\$ in thousands)				
<u>Investment Agreement Provider</u>	<u>Acquisition Account</u>	<u>Debt Service Reserve Fund</u>	<u>Float Fund*</u>	<u>Total</u>
Assured Guaranty Municipal Corp**	--	\$12,113	\$17,605	\$29,718
Depfa Bank PLC	--	5,585	25,126	30,711
Transamerica Life Insurance Co.	--	12,002	--	12,002
Credit Agricole***	--	--	11,045	11,045
Societe Generale****	--	3,787	3,198	6,985
Natixis Funding Corp*****	--	2,625	--	2,625
Monumental Life Insurance Company	--	<u>821</u>	<u>1,972</u>	<u>2,793</u>
Totals	--	\$36,933	\$58,946	\$95,879

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

**Guaranteed by Assured Guaranty.

***Terminated on February 17, 2012 following a downgrade of the credit rating of the provider.

****Terminated on February 1, 2012, following a downgrade of the credit rating of the provider.

*****Guaranteed by Caisse des Depots et Consignations.

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

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

Revenues

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

Debt Service Reserve Fund

The Bond Resolution creates and establishes a Debt Service Reserve Fund and provides that the Debt Service Reserve Requirement as of any date shall be the sum of amounts established for each Series of Bonds by each Series Resolution. The aggregate Debt Service Reserve Requirement with respect to the Series Bonds is equal, as of the date of calculation, to three percent (3%) of the aggregate principal amount of the then Outstanding Series Bonds, initially, \$4,522,500. The balance in the Debt Service Reserve Fund on December 31, 2011, was \$45,406,802, which was at least equal to the Debt Service Reserve Requirement for all Series of Bonds then Outstanding.

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

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

the regular budget for that year has previously been approved, the amounts certified by the agency

....

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

Insurance Reserve Fund

The Bond Resolution creates and establishes an Insurance Reserve Fund to be used for the purpose of paying that portion of the claim for loss with respect to any defaulted Program Obligation which is not paid by a public or private insuring agency. As of any particular date of calculation, the Insurance Reserve Requirement is the sum of amounts, if any, established for each Series of Bonds by the applicable Series Resolution. The Insurance Reserve Requirement with respect to the Series Bonds is \$0. Currently, there is no balance in the Insurance Reserve Fund, as there is no Insurance Reserve Requirement for any Series of Bonds Outstanding.

Additional Bonds

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

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

State Pledge Against Impairment of Contracts

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

THE RESIDENTIAL HOUSING FINANCE PROGRAM

General

Under the Bond Resolution, the Agency may issue Bonds to finance Program Obligations in order to provide financing for housing for low and moderate income persons, including single family loans, home improvement loans, multifamily loans and other housing-related loans, and to secure such loans in such manner as the Agency determines, which would include first mortgage loans, subordinate mortgage loans or loans which are unsecured. All Outstanding Bonds issued under the Bond Resolution are secured on a parity, except as otherwise expressly provided in the Bond Resolution. Certain proceeds of the Series Bonds will be used to purchase Program Securities backed by single family mortgage loans and, as a result of refunding the Refunded Bonds, certain Transferred Program Loans will become pledged to the payment of Outstanding Bonds. (See "Estimated Sources and Uses of Funds.")

The following provides a general description of the Agency's Program in respect of the Program Securities backed by single family mortgage loans to be purchased with proceeds of the Series Bonds. *The Series Program Determinations governing the Program Obligations to be financed with proceeds of the Series Bonds may be revised*

by the Agency from time to time as provided in the 2012 Series Resolution and, consequently, the following general description is subject to change. The following description does not apply to the Transferred Program Loans that will be pledged to the payment of Outstanding Bonds as a result of the refunding of certain Refunded Bonds with certain proceeds of the Series Bonds.

History and Transition to “MBS” Model

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

Effective for commitments made on or after September 1, 2009, the Agency changed the Program from a “whole loan” model to an “MBS” (mortgage-backed securities) model. The Agency has entered into a Servicing Agreement, dated as of July 9, 2009 (the “Servicing Agreement”), with the Trustee and U.S. Bank National Association, as master servicer (the “Master Servicer”), for a term ending August 31, 2012 (subject to multiple renewal and termination rights). Pursuant to the Servicing Agreement, the Master Servicer is to acquire single family mortgage loans meeting Program requirements and pool such Program Loans into Program Securities to be purchased by the Trustee on behalf of the Agency. (See “Procedures for Origination, Purchase and Pooling -- Program Securities” below.) For additional information regarding the Master Servicer, see Appendix J to this Official Statement.

Reimbursement of Advances of Agency Funds with Proceeds of Series Bonds

As of March 12, 2012, the Master Servicer had purchased approximately \$14.3 million in unpaid principal balance of mortgage loans at an average pass-through interest rate of 3.66%, and had commitments outstanding to purchase approximately \$54.6 million in mortgage loans at an average pass-through interest rate of 3.54%, all of which, if purchased by the Master Servicer, are expected to be pooled into Program Securities to be purchased by the Agency. As of March 9, 2012, approximately \$6.7 million remained on deposit in an acquisition account for the most recent issue of bonds under a different bond resolution and will be applied to purchase such Program Securities. Based on the Program Loans that have been purchased or committed by the Master Servicer and absent material changes in the market, the Agency expects that all funds credited to the 2012 A-B-C-D Acquisition Account will be disbursed by September 1, 2012.

Procedures for Origination, Purchase and Pooling

Application

The Agency has published, and revises from time to time, its Minnesota Housing Mortgage Loan Program Procedural Manual: MBS (the “Manual”) which sets forth the guidelines and procedures for participation in the Program and certain requirements for origination of mortgage loans, including provisions for compliance with the requirements of applicable federal tax law. The Master Servicer has also published its lending manual for the Program. The Agency or the Master Servicer respond to inquiries by interested lenders by directing them to the appropriate page on the Agency’s or Master Servicer’s website delineating information regarding the requirements a lender must satisfy to be eligible to participate in the Program. Each Lender that meets Program requirements and participates in the Program must execute a Participation Agreement (the “Participation Agreement”), which incorporates the Manual and the Master Servicer’s lending manual by reference. Generally, Lenders that participate in the Program receive no advance commitment of funds (see exceptions in “Special Assistance Programs” below). Rather, Lenders may request an individual commitment of loan funds via the internet by entering loan information in the Agency’s online loan purchase approval system (HDS SF Web Application). Each commitment request is subject to a review of the Agency’s eligibility rules that are a part of the HDS SF Web Application. If the information entered by the Lender meets the eligibility rules, the loan funds are then committed for each specific

loan for a specific period. Should a specific loan ultimately be rejected or cancelled, the funds are available for use by another eligible borrower and Lender. There is no prescribed limit on the amount of funds that may be used by an individual participating Lender, subject to availability of funds.

Upon execution of the Participation Agreement, the Lender must pay an initial fee of \$1,000 to participate in the Program and an annual renewal fee of \$500, unless payment of such fees is specifically modified or waived by the Agency. A Lender is eligible to renew the Participation Agreement and pay the \$500 renewal fee only if the Lender has originated a minimum of six loans during the 12-month period that begins on the July 1st that follows execution of a Participation Agreement with the Agency. Lenders are not required to pay a reservation fee upon obtaining a commitment of funds through the HDS SF Web Application. If the Master Servicer has not purchased a loan pursuant to an individual commitment after 75 days where an existing home is to be financed or after 115 days where a newly constructed home is to be financed, the Agency, at its option, may charge and, if so charged, the Lender must agree to pay an extension fee to maintain the individual commitment for a specified, extended period of time. Participation fees are deposited into the Alternative Loan Fund. Unrefunded extension fees, if charged, are deposited into the funds from which the loans or the Program Securities are purchased, either the Alternative Loan Fund or the Revenue Fund under the Bond Resolution.

Qualified Borrowers

The Agency has established the maximum gross income for eligible borrowers under the Program based upon applicable federal law and Agency policy objectives. The maximum gross income of an eligible borrower under the Agency’s regular program (the Minnesota Mortgage Program) is currently as follows:

Household Size	11-County Twin Cities Metropolitan Area*	Rochester MSA	Balance of State
1 Person	\$83,900	\$81,300	\$73,900
2 Person	83,900	81,300	73,900
3 Person	83,900	81,300	73,900
4 Person	83,900	81,300	73,900
5 Person	90,600	87,800	79,800
6+ Person	96,485	93,495	84,985

The maximum gross income of an eligible borrower under the Agency’s special assistance program (the Community Activity Set-Aside Program) is currently as follows:

Household Size	11-County Twin Cities Metropolitan Area*	Rochester MSA	Balance of State
1 Person	\$67,100	\$65,050	\$59,100
2 Person	67,100	65,050	59,100
3 Person	67,100	65,050	59,100
4 Person	67,100	65,050	59,100
5 Person	72,450	70,250	63,850
6 Person	77,850	75,450	68,550
7 Person	83,200	80,650	73,300
8 Person	88,550	85,850	78,000
9 Person	93,950	91,050	82,750
10 Person**	96,485	93,495	84,985

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

**Maximum gross income for households of more than 10 persons may be obtained by contacting the Agency.

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

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

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

Certain borrowers may be eligible for assistance for entry costs, if needed for borrower qualification. See "Homeownership Assistance Fund Loans" and "HOME Homeowner Entry Loan Program Loans" under "Other Programs" below.

In August 2010, the Agency began offering the Fannie Mae Housing Finance Agency Affordable Advantage loan product under the Minnesota Mortgage Program for borrowers with a qualifying credit score and who do not receive entry cost assistance. The Affordable Advantage loan product enables eligible state housing finance agencies to deliver loans with up to 100% loan-to-value ratios without mortgage insurance, although borrowers must contribute at least \$1,000 of their own funds. The loan product carries a higher Fannie Mae guarantee fee and the Agency must agree to repurchase the loan in the first six months if the loan becomes four months consecutively delinquent or if the loan is delinquent at the sixth month, does not become current and becomes four months consecutively delinquent thereafter. The Affordable Advantage Program terminated effective March 31, 2011. Before termination, the Agency had purchased with proceeds of Bonds Program Securities backed by Affordable Advantage loans in the approximate principal amount of \$12.97 million. The Agency no longer has a repurchase obligation in respect of any of these loans.

The Agency expects to begin offering in May 2012 the Fannie Mae HFA Preferred Risk Sharing™ loan product under the Minnesota Mortgage Program for borrowers who meet the qualifying guidelines. Initially, entry cost assistance will not be available from the Agency in connection with these loans. The HFA Preferred Risk Sharing™ loan product enables eligible state housing finance agencies to deliver loans with up to 97% loan-to-value ratios without mortgage insurance. The loan product carries a higher Fannie Mae guarantee fee and the Agency must agree to repurchase the loan if it becomes delinquent in the first six months and remains delinquent for four consecutive months thereafter, or if the loan is delinquent at the sixth month, does not become current and remains delinquent for four consecutive months thereafter. The Agency has initial authority to purchase \$75 million in HFA Preferred Risk Sharing loans.

Program Loans

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

Subject to the right of the Agency to modify the terms of Program Loans (see Appendix C "Summary of Certain Provisions of the Bond Resolution – Program Loans; Modification of Terms") under applicable Series Resolutions, the Agency must take or require a Servicer to take all measures, actions and proceedings reasonably necessary and deemed by it to be most effective to recover the balance due on a Defaulted Program Loan, including the curing of the default by the Mortgagor, foreclosure of the Mortgage, acceptance of a conveyance in lieu of foreclosure, sale of the Mortgage, renting or selling the Home, collection of any applicable mortgage insurance or guaranty, and preservation of the title to and value of the Home pending recovery of the balance of the Defaulted Program Loan. (See "State Laws Affecting Foreclosures" in Appendix E to this Official Statement.)

The Transferred Program Loans are Program Loans and are not Program Securities.

Acquisition of Program Securities

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

During the Delivery Period, the Master Servicer is to acquire Program Loans from Lenders and pool the Program Loans into Program Securities as provided in the Servicing Agreement. The Trustee is to disburse moneys from the 2012 A-B-C-D Acquisition Account for the acquisition of Program Securities pursuant to the Servicing Agreement. The Trustee is to pay the Master Servicer an amount equal to 101% of the principal amount of each Program Security acquired from the Master Servicer, plus accrued interest, if any, and any applicable fees or charges payable to a Federal Mortgage Agency and not paid by the mortgagor.

The Agency may at any time transfer any proceeds of the Series Bonds in the 2012 A-B-C-D Acquisition Account to the Bond Redemption Fund to be applied to the redemption of Series Bonds. In addition, the Agency shall transfer any remaining proceeds of the Series Bonds in the 2012 A-B-C-D Acquisition Account to the Bond Redemption Fund to be applied to the redemption of Series Bonds at the end of the Delivery Period; provided that the Agency may (instead of redeeming Series Bonds from unexpended proceeds) extend the Delivery Period with respect to all or any portion of the unexpended amounts remaining in the 2012 A-B-C-D Acquisition Account, for such period or periods as the Agency shall determine consistent with the final sentence of this paragraph, but only if the Agency shall have delivered to the Trustee on or prior to the expiration of the then-current Delivery Period an Agency Certificate (i) designating the new ending date for the Delivery Period, (ii) certifying that the Agency has received a Cash Flow Certificate and a Parity Certificate confirmed by an investment banking firm, financial consulting firm or accounting firm, in each case nationally recognized with respect to the cash-flow analysis of qualified mortgage bonds, which shows that such extension will not adversely affect the availability of Revenues sufficient to make timely payment of principal of and interest on the Outstanding Bonds in the current and each subsequent Fiscal Year, and that at all times the assets of the Program will equal or exceed the liabilities of the Program, which Cash Flow Certificate and Parity Certificate shall accompany the Agency Certificate; (iii) certifying that, to the extent necessary to satisfy the requirements of the Cash Flow Certificate and each Rating Agency then rating the Bonds, an Investment Obligation has been arranged for investment of amounts in the 2012 A-B-C-D Acquisition Account to a date not earlier than the ending date of the extended Delivery Period; (iv) designating the amount of any additional deposits required by the Cash Flow Certificate, the Parity Certificate and each Rating Agency then rating the Bonds to be made into funds held under the Resolutions in connection with such extension, which deposits shall be made on or before the date of expiration of the then-current Origination Period and shall be made only from the Agency’s funds; and (v) certifying that the Agency has notified each Rating Agency then rating the Bonds that such extension is being planned and has provided copies of the Cash Flow Certificate and Parity Certificate to each Rating Agency then rating the Bonds, together with such other documentation as each Rating Agency then rating the Bonds may request, and has received written confirmation that the Rating of Outstanding Bonds will not be impaired by the extension of the Delivery Period. On any date or dates subsequent to any extension of the Delivery Period, the Agency may transfer any unexpended proceeds relating to the Series Bonds remaining in the 2012 A-B-C-D Acquisition Account to the Bond Redemption Fund to be applied to redemption of Series Bonds. At the end of the Delivery Period, including any extension thereof, the Trustee is to transfer all amounts relating to the Series Bonds remaining in the 2012 A-B-C-D Acquisition Account to the Bond Redemption Fund to be applied to the redemption of Series Bonds. The Delivery Period may not be extended beyond the date set forth in the definition under “Certain Defined Terms” in Appendix D to this Official Statement.

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

Qualified Real Property

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

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

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

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

Special Assistance Programs

The Agency may set aside the proceeds of the Series Bonds under the Program for special assistance program components to meet specified housing needs identified by the Agency. Under such program components, the Agency may commit or otherwise provide access to proceeds to such entities as Lenders, units of local government or local housing and redevelopment authorities, nonprofit housing providers, builders/developers, and other entities that, in turn, will provide housing finance opportunities that address a specified housing need to qualified borrowers purchasing qualified real property. The primary program the Agency currently offers for such purposes is the Community Activity Set Aside program (the "CASA Program").

All loans originated under special assistance program components must be qualified loans as described above.

Both borrowers and properties under special assistance program components are to be in compliance with FHA/VA/USDA Rural Development/Fannie Mae/Freddie Mac and the Master Servicer's underwriting standards. The Agency may elect to either reduce or increase the income and/or house price limits described herein incident to a specific assistance program component, but in all circumstances, the Agency will assure that the applicable limits meet the requirements of federal tax law.

Target Areas

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

Servicing of Program Loans

Under the Program, the Agency has set forth requirements for the servicing and accounting of Program Loans in a Servicing Manual. Servicing may be granted to Lenders that demonstrate adequate technical capability to the Agency's satisfaction. Each Servicer must maintain at all times a fidelity bond and an errors and omissions

policy issued by a company having a current rating in Best's Insurance Reports of A/AAA or better. Servicers are required to ensure that mortgagors maintain on each home a hazard insurance policy providing fire and extended coverage equal to or greater than that customary in the geographic area in which the home is located. Servicers are required to advise the Agency if a home is exposed to a risk not otherwise covered by the hazard insurance policy and the Agency may require additional coverage.

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

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

Servicing of Program Securities

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

The Agency has entered into the Servicing Agreement with the Master Servicer to service mortgage loans backing Program Securities. For additional information regarding the Master Servicer, see Appendix J to this Official Statement. The 2012 Series Resolution provides that in the event the Servicing Agreement is cancelled or terminated for any reason, the Agency shall proceed with due diligence to procure a successor Master Servicer, subject to the provisions of the Servicing Agreement and the requirements of each applicable Federal Mortgage Agency. During the period necessary to obtain such successor, the Trustee shall, subject to the approval of the applicable Federal Mortgage Agency, cause to be performed the duties and responsibilities of the Master Servicer, under the Servicing Agreement and shall be compensated therefor, in addition to the compensation payable to it under the Resolutions or any other instrument, in the same manner and amounts as provided under the Servicing Agreement.

Applicable Federal Law Mortgage Eligibility Requirements

Applicable federal law imposes significant limitations on the financing of mortgage loans on owner occupied one- to four-family residences with the proceeds of a qualified mortgage bond issue, such as the Series Bonds. (See "Tax Exemption and Related Considerations.")

Mortgage Loan Portfolio and Acquired Program Securities

As of December 31, 2011, the Agency had outstanding Program Loans receivable of \$1,327,104,000 gross, which were financed from the proceeds of Bonds. As of December 31, 2011, excluding the proceeds of short-term bonds and notes, there were no uncommitted proceeds from previous bond sales under the Bond Resolution available for commitment. Certain information relating to mortgage insurance and delinquency and foreclosure statistics for the single family mortgage loan portfolio funded by Bonds is contained in Appendix H.

As of December 31, 2011, the following Program Securities (comprising GNMA Securities and Fannie Mae Securities) were pledged to secure Outstanding Bonds under the Bond Resolution:

	Principal Amount <u>Outstanding</u>	<u>Percentage</u>
GNMA II	\$44,239,000	91.99%
FNMA	<u>3,854,000</u>	<u>8.01</u>
Total	\$48,093,000	100.00%

OTHER PROGRAMS

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

For example, as of December 31, 2011, the Homeownership Finance Bond Fund had outstanding mortgage-backed securities of \$489,833,000 principal amount, which were financed from the proceeds of the Agency's homeownership finance bonds. As of December 31, 2011, the Single Family Mortgage Bond Fund had outstanding loans receivable of \$111,205,000 gross, which were financed from the proceeds of the Agency's single family mortgage bonds. As of December 31, 2011, the Agency had outstanding home improvement loans receivable of \$111,229,000 gross. *None of such loans secure or are available for the payment of principal of or interest on the Bonds.*

Homeownership Assistance Fund Loans

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

Mortgagors who meet program income requirements, program targeting criteria and who do not have sufficient cash for down payment and closing costs are eligible for entry cost assistance of up to \$4,500.

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

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

The Agency may use a portion of the proceeds of a Series of Bonds to make loans for the purpose of entry cost assistance. Any such loans will also back Program Securities pledged to the payment of principal of and interest on the Bonds. The Agency does not presently intend to use proceeds of the Series Bonds to make loans for such purpose.

HOME Homeowner Entry Loan Program Loans (HOME HELP)

The Agency has established a HOME HELP program created with federal HOME funds received by the Agency. A HOME HELP loan is a junior lien loan made by the Agency to the mortgagor to assist in the payment of entry costs (i.e., required down payment and closing costs) on the home. HOME HELP loans are available only to mortgagors participating in the Agency's CASA Program. Program participants choose between the use of Homeownership Assistance Funds described above or HOME HELP funds.

CASA borrowers who meet Federal HOME and program requirements, including but not limited to income, house price, Housing Quality Standards, Uniform Relocation Act compliance, and environmental review, are eligible for an amount up to \$10,000. Mortgagors must have a housing ratio above 25% before the assistance is applied.

The HOME HELP loan is an interest free, deferred loan with a repayment agreement that recaptures 100% of the loan amount for the first six years and 30% of the loan amount after year six. Recapture occurs upon maturity of the CASA program first mortgage, upon voluntary or involuntary sale of the property, or the property is no longer owner occupied. HOME HELP loans are not pledged to the payment of the Bonds.

TAX EXEMPTION AND RELATED CONSIDERATIONS

General

The Code establishes certain requirements that must be met subsequent to the issuance of the Series Bonds (the Series Bonds are collectively considered a single composite “issue” for purposes of the Code) in order that interest thereon be and remain excludable from gross income for federal income tax purposes. Failure to comply with such requirements could cause the interest on the Series Bonds to be includable in gross income retroactive to their date of original issuance. The requirements of the Code include provisions that restrict the yield and set forth other limitations within which the proceeds made available upon the issuance of the Series Bonds are to be invested, including mortgage eligibility requirements, and require that certain investment earnings be rebated on a periodic basis to the United States Treasury.

Section 143 of the Code imposes significant limitations on the financing of single-family mortgage loans that are applicable to the Series Bonds. The Agency will covenant, as described below, that the Program Loans financed by the proceeds made available upon the issuance of the Series Bonds will satisfy these requirements, including, but not limited to, the borrower income and purchase price limitations of Section 143 of the Code. Notwithstanding the foregoing, certain of such mortgage eligibility requirements do not need to be satisfied with respect to the Program Loans allocable to the 2012 Series B Bonds.

Under the Code, the following requirements must be met with respect to each Program Loan financed, in whole or in part, with proceeds of the Series Bonds: (a) the residence being financed must reasonably be expected by the Agency to become the principal residence of the mortgagor within a reasonable time after the financing is provided, must not be intended primarily or expected to be used in a trade or business and may not be used as an investment property or as a recreational home; (b) subject to certain exceptions, at least 95% of the lendable proceeds of an issue must be used to finance residences of borrowers who have not had a present ownership interest in a principal residence during the three-year period prior to the date on which the mortgage is executed; (c) the acquisition cost of the residence must not exceed certain limitations; (d) all mortgages must be made to borrowers whose income does not exceed certain limitations; (e) except in certain limited circumstances, proceeds may not be applied to acquire or replace an existing mortgage; and (f) if assumable in accordance with its terms, a mortgage may not be assumed unless requirements (a) through (d) above are met.

An issue of bonds is treated as meeting the mortgage eligibility requirements of the Code only if the issuer in good faith attempts to meet all of the mortgage eligibility requirements before the mortgages are executed and any failure to comply with the mortgage eligibility requirements is corrected within a reasonable period after such failure is first discovered. In addition, 95% or more of the proceeds of the issue used to make loans must be used to finance residences which met all such requirements at the time the loans were executed. In determining whether 95% of the proceeds have been so used, the issuer is entitled to rely on an affidavit of the mortgagor and of the seller and on the mortgagor’s income tax returns filed with the Internal Revenue Service for the three years preceding the date the mortgage is executed even though the relevant information in such affidavits and returns should ultimately prove to be untrue, unless the issuer or its agent knows or has reason to believe that such information is false. If the relevant information in the affidavits obtained in connection with any loan is discovered to be untrue, however, the correction still must be made within a reasonable period.

The Agency has included provisions in the Resolutions, its procedural manuals (including the Manual) (collectively, the “Manuals”) and other relevant documents, and has established procedures (including receipt of certain affidavits and representations from Lenders, mortgagors and others respecting the mortgage eligibility requirements) in order to ensure compliance with the mortgage eligibility requirements and other requirements of the Code relating to nonmortgage investments which must be met subsequent to the date of issuance of the Series Bonds. The Agency has covenanted in the Resolutions to do all things necessary to assure that interest paid on the Series Bonds shall be excludable from gross income for federal tax purposes under current law. Under the Code, certain requirements must be met subsequent to the delivery of the Series Bonds to ensure that interest on such

Bonds is not included in gross income. The Agency believes that the procedures and documentation requirements established for the purpose of fulfilling its covenant are sufficient to ensure that the proceeds of the Series Bonds will be applied in accordance with the Code.

Backup Withholding

As a result of the enactment of the Tax Increase Prevention and Reconciliation Act of 2005, interest on tax-exempt obligations such as the Series Bonds is subject to information reporting in a manner similar to interest paid on taxable obligations. Backup withholding may be imposed on payments made to any bondholder who fails to provide certain required information, including an accurate taxpayer identification number, to any person required to collect such information pursuant to Section 6049 of the Code. The new reporting requirement does not, in and of itself, affect or alter the excludability of interest on the Series Bonds from gross income for federal tax purposes or any other federal tax consequences of purchasing, holding or selling tax-exempt obligations.

Opinion of Bond Counsel

In the opinion of Kutak Rock LLP, Bond Counsel, to be delivered, with respect to the Series Bonds, on the date of issuance of the Series Bonds, assuming the accuracy of certain representations and continuing compliance by the Agency with certain covenants, under existing laws, regulations, rulings and judicial decisions, interest payable on the Series Bonds is not includable in gross income of the owners thereof for federal income tax purposes, except as hereafter described. Bond Counsel is of the opinion that (i) interest on the 2012 Series A Bonds will be treated as an item of tax preference in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations, (ii) interest on the 2012 Series B Bonds, 2012 Series C Bonds and the 2012 Series D Bonds will not be treated as an item of tax preference in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations, (iii) interest on the 2012 Series B Bonds and the 2012 Series C Bonds will be included in the calculation of adjusted current earnings for purposes of calculating the federal alternative minimum tax imposed on corporations, and (iii) interest on the 2012 Series D Bonds will not be included in the calculation of adjusted current earnings for purposes of calculating the federal minimum alternative tax imposed on corporations.

In addition, in the opinion of Bond Counsel, interest on the Series Bonds is not includable in the taxable net income of individuals, trusts and estates for Minnesota income tax purposes. Interest on the Series Bonds is includable in the income of corporations and financial institutions for purposes of the Minnesota franchise tax. Interest on the 2012 Series B Bonds, 2012 Series C Bonds and the 2012 Series D Bonds is not includable in the Minnesota alternative minimum taxable income of individuals, estates and trusts.

A form of the Bond Counsel opinion with respect to the Series Bonds is attached hereto as Appendix G.

Although Bond Counsel is rendering an opinion that the interest on the Series Bonds, as described above, is not included in gross income for federal, and in some cases, Minnesota, income tax purposes, the accrual or receipt of interest on the Series Bonds may otherwise affect the federal and state income tax liability of the recipient. The extent of these other tax consequences will depend upon the recipient's particular tax status or other items of income or deduction. Bond Counsel expresses no opinion regarding any such consequences. Purchasers of the Series Bonds, particularly purchasers that are corporations (including S corporations and foreign corporations operating branches in the United States), property or casualty insurance companies, banks thrifts or other financial institutions or recipients of Social Security or railroad retirement benefits, taxpayers otherwise entitled to claim earned income credit and taxpayers who may be deemed to have incurred (or continued) indebtedness to purchase or carry tax-exempt obligations are advised to consult their tax advisors as to the tax consequences of purchasing, holding or selling the Series Bonds.

Tax Treatment of Premium on PAC Bonds

The PAC Bonds are expected to be sold at a premium. An investor that acquires a PAC Bond for a cost greater than its remaining stated redemption price at maturity and holds the PAC Bond as a capital asset will be considered to have purchased the PAC Bond at a premium and, under Section 171 of the Code, must generally amortize such premium under the constant yield method. Except as may be provided by regulation, amortized premium will be allocated among, and treated as an offset to, interest payments. The basis reduction requirements of Section 1016(a)(5) of the Code apply to amortizable bond premium that reduces interest payments under Section

171 of the Code. Regulations have been issued dealing with certain aspects of federal income tax treatment of bond premium, but such regulations do not fully address the method to be used to amortize bond premium on obligations such as the PAC Bonds. Therefore, investors should consult their tax advisors regarding the tax consequences of amortizing bond premium.

Certain State Tax Legislation

Minnesota, like many other states, generally taxes interest on obligations of governmental issuers in other states. In 1995, Minnesota enacted a statement of intent, codified at Minn. Stat. § 289A.50, subd. 10, that interest on obligations of Minnesota governmental units and Indian tribes be included in the net income of individuals, estates and trusts for Minnesota income tax purposes if a court determines that Minnesota's exemption of such interest and its taxation of interest on obligations of governmental issuers in other states unlawfully discriminates against interstate commerce. This provision applies to taxable years that begin during or after the calendar year in which any such court decision becomes final, irrespective of the date upon which the obligations were issued.

On May 19, 2008 the U.S. Supreme Court held in *Department of Revenue of Kentucky v. Davis* that Kentucky's taxation of interest on bonds issued by other states and their political subdivisions, while exempting from taxation interest on bonds issued by the Commonwealth of Kentucky or its political subdivision, does not impermissibly discriminate against interstate commerce under the Commerce Clause of the U.S. Constitution. In a footnote, however, the Court stated that it had not addressed whether differential treatment of "so-called 'private-activity,' 'industrial-revenue,' or 'conduit' bonds . . . used to finance projects by private entities" violate the Commerce Clause, adding that "we cannot tell with certainty what the consequences would be of holding that Kentucky violates the Commerce Clause by exempting such bonds; we must assume that it could disrupt important projects that the States have deemed to have public purposes. Accordingly, it is best to set this argument aside and leave for another day any claim that differential treatment of interest on private-activity bonds should be evaluated differently from the treatment of municipal bond interest generally."

The Series Bonds are "private activity bonds" even though they finance individual residential mortgages, not projects by private entities. Since the Supreme Court's opinion left open the possibility of a challenge to Minnesota's differential treatment of the interest on private activity bonds issued in other states, the Agency cannot predict the outcome of any such challenge. If Minnesota's treatment of such bonds were held to unlawfully discriminate against interstate commerce, the court making such a finding would have to decide upon a remedy for the tax years at issue in the case. Even if the remedy applied to those years preceding the decision were to exempt other states' bond interest rather than to tax Minnesota bond interest, application of the 1995 statute to subsequent years could cause interest on the Series Bonds to become taxable by Minnesota and the market value of the Series Bonds to decline.

Changes in Federal and State Tax Law

From time to time, there are legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to above, prevent owners of the Series Bonds from realizing the full current benefit of the tax treatment of the Series Bonds or adversely affect the market value of the Series Bonds. An example is the American Jobs Act of 2011 (S. 1549), proposed by the President and introduced in the Senate on September 13, 2011. If enacted as introduced, a provision of S. 1549 would limit the amount of exclusions (including tax-exempt interest) and deductions available to certain high income taxpayers for taxable years after 2012, and as a result could affect the market price or marketability of the Series Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether, if enacted, it would apply to bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value of the Series Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Series Bonds or the market value thereof would be impacted thereby. Purchasers of the Series Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The opinions expressed by Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Series Bonds and Bond Counsel has expressed no opinion as of any date subsequent thereto or with respect to any pending legislation, regulatory initiatives or litigation.

LITIGATION

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

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

LEGAL MATTERS

The validity of, and the tax exemption of interest on, the Series Bonds are subject to the opinions of Kutak Rock LLP, Atlanta, Georgia, Bond Counsel. The opinion of Bond Counsel will be provided in substantially the form set forth in Appendix G attached hereto. Certain legal matters will be passed upon for the Underwriters by their counsel, Dorsey & Whitney LLP, Minneapolis, Minnesota.

RATINGS

The Series Bonds are rated “Aa1” by Moody’s Investors Service, Inc., and “AA+” by Standard & Poor’s Ratings Services. The ratings reflect only the views of the applicable rating agency, and an explanation of the significance of such rating may be obtained only from the rating agency and its published materials. The ratings described above are not a recommendation to buy, sell or hold the Series Bonds. There can be no assurance that any such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely if, in the judgment of the rating agency, circumstances so warrant. Therefore, after the date hereof, investors should not assume that such ratings are still in effect. A downward revision or withdrawal of either rating is likely to have an adverse effect on the market price and marketability of the Series Bonds. The Agency has not assumed any responsibility either to notify the owners of the Series Bonds of any proposed change in or withdrawal of such rating subsequent to the date of this Official Statement, except in connection with the reporting of events as provided in the Continuing Disclosure Undertaking (see Appendix C to this Official Statement), or to contest any such revision or withdrawal.

FINANCIAL ADVISOR

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

UNDERWRITING

RBC Capital Markets, LLC, Morgan Stanley & Co. LLC, Piper Jaffray & Co. and Morgan Keegan & Company, Inc. (collectively, the “Underwriters”) will purchase the Series Bonds. The Underwriters are to be paid a fee of \$1,163,256.00 with respect to their purchase of the Series Bonds. The Underwriters may offer and sell the Series Bonds to certain dealers and certain dealer banks at prices lower than the public offering prices stated on the inside front cover hereof.

Morgan Stanley, the parent company of Morgan Stanley & Co. LLC, an underwriter of the Series Bonds, has entered into a retail brokerage joint venture with Citigroup Inc. As part of the joint venture each of Morgan Stanley & Co. LLC and Citigroup Global Markets, Inc. will distribute municipal securities to retail investors through the financial advisor network of a new broker-dealer, Morgan Stanley Smith Barney LLC. This distribution

arrangement became effective on June 1, 2009. As part of this arrangement, Morgan Stanley & Co. LLC will compensate Morgan Stanley Smith Barney LLC. for its selling efforts in connection with its allocation of Series Bonds.

Piper Jaffray & Co. (“Piper”) and Pershing LLC, a subsidiary of The Bank of New York Mellon Corporation, have entered into an agreement (the “Agreement”) which enables Pershing LLC to distribute certain new issue municipal securities underwritten by or allocated to Piper, including the Series Bonds. Under the Agreement, Piper will share with Pershing LLC a portion of the fee or commission paid to Piper.

MISCELLANEOUS

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

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

MINNESOTA HOUSING FINANCE AGENCY

By /s/ MARY TINGERTHAL
Commissioner

Dated: March 28, 2012.

APPENDIX A

**AUDITED FINANCIAL STATEMENTS OF THE AGENCY
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

MINNESOTA HOUSING FINANCE AGENCY
Annual Financial Report as of and for the year ended June 30, 2011

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MINNESOTA HOUSING FINANCE AGENCY

Commissioner's Report

As Minnesota Housing celebrates the 40th anniversary of its formation, the Agency has achieved strong financial and programmatic results in a year when national and state housing markets continue to be weak. Focusing on the fundamentals of our business lines, we have achieved these results with three key items reflecting positive change from the previous year: reducing homeownership loan delinquencies, with a resulting significant reduction in loan loss expense for the first time in three years; reducing risk exposure by increasing reliance on mortgage-backed securities; and generating greater loan production in a difficult economy. Our strong financial performance paired with reduced risk exposure to whole loans has also made it possible to transfer \$13.9 million to our Housing Affordability Fund for use in program funding during the next year.

These results have been achieved as the Agency saw a leadership change during the fiscal year. Last November, Minnesota elected a new Governor for the first time in eight years, and Governor Mark Dayton appointed me as the new Commissioner of Minnesota Housing in January. This has given me the opportunity to return to the Agency where I began my professional career in 1976. After 10 years at the Agency, I spent the intervening period in leadership roles in the financial services industry, working in the private mortgage banking sector and for national non-profit financial intermediaries. Governor Dayton also appointed Ken Johnson, a seasoned public finance professional, as the Agency's new Board Chair.

Several major trends in the financial marketplace provided the backdrop for the Agency's programmatic results.

- During the previous two fiscal years, Minnesota Housing was able to maintain a high level of program activity in a tough economy through the administration of programs that were part of the Federal stimulus program. These programs provided a helpful bridge for housing developers during a time when more traditional finance programs, especially the Low Income Housing Tax Credit, were not functioning effectively in the marketplace. Investors have now returned to the Tax Credit market as the stimulus programs are winding down.
- During a time of historically low interest rates for home mortgages, Minnesota Housing has been able to offer competitively priced mortgages for first time home buyers through careful debt management practices and use of the U.S. Treasury Department's New Issue Bond Program. This program was even more effective because of the Agency's earlier successful shift from holding whole loans to holding mortgage-backed securities, reducing the level of risk on its balance sheet. As investors have shown a preference for bonds backed by mortgage-backed securities, the Agency has enjoyed superior executions on its bond sales.
- As mortgage loan delinquencies and foreclosures nationally have remained stubbornly high, Minnesota Housing saw its delinquency rates fall during the last three months of the fiscal year. This is in part due to a decision by the Agency to proactively offer loan modifications to those borrowers with the financial capacity to maintain their mortgages with lower monthly payments.
- Minnesota Housing received strong bi-partisan support for continued state appropriations, taking only a modest 6.3% reduction from the previous biennium, despite a \$5 billion State budget deficit.

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

- Made commitments for 2,184 new home mortgages for first time homebuyers, of which 23% were for borrowers from emerging markets.
- Closed on 106 loans for multifamily properties, providing or preserving affordable rental units for more than 4,700 low and moderate income households.
- Made significant progress in committing resources to support housing units for individuals and families that have suffered from long-term homelessness, reaching the 3,582-unit mark towards the State's goal of producing 4,000 such units by the year 2015.
- Received a renewed contract from the Department of Housing and Urban Development (HUD) to manage rental assistance payments for more than 35,000 rental housing units under the Performance-Based Contract Administration program, after successfully competing in HUD's competitive bid process for this program.
- Continued a strong commitment to foreclosure prevention, winning an allocation of more than \$3 mil-

MINNESOTA HOUSING FINANCE AGENCY

Commissioner's Report (continued)

lion in counseling resources under the National Foreclosure Mitigation Counseling program that will allow us to assist an estimated 7,937 households. Minnesota Housing also received a significant award under a new federal program – the Emergency Homeowners Loan Program – that will help unemployed and underemployed homeowners to make their mortgage payments for up to 2 years or until they find new employment.

Minnesota Housing also took important steps during the year to ensure the strength of its financial, technology and risk management infrastructure:

- Engaged its financial advisor to conduct a Capital Adequacy assessment, with strong results.
- Made significant investments in technology support for both its single-family mortgage-backed securities platform and its multifamily asset management platform. These are the first steps in a program that will result in significant process improvements over the next 2 to 3 years.
- Engaged seasoned professionals for two new positions – a Chief Risk Officer who reports directly to the Board of Directors and a Senior Credit Officer who reports directly to the Chief Financial Officer.

We are proud that Minnesota Housing stands as a strong financial partner for the lenders, developers and counseling organizations that provide affordable housing opportunities for Minnesotans. Our financial and organizational strength will allow us to achieve our mission – financing and advancing affordable housing opportunities for low and moderate income Minnesotans to enhance quality of life and foster strong communities – for many years to come.



Mary Tingerthal, Commissioner
Minnesota Housing
August 24, 2011

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 Minnesota Housing Finance Agency (the Agency), a component unit of the State of Minnesota, as of and for the year ended June 30, 2011, 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 2010 financial statements and, in our report dated August 25, 2010, 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, 2011, 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.

Larson Allen LLP
LarsonAllen LLP

Minneapolis, Minnesota
August 24, 2011

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, 2010. 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 2011 in comparison to the prior fiscal year.

MINNESOTA HOUSING FINANCE AGENCY

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

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, 2011. 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 2011 (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 2011.

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 2011 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

MINNESOTA HOUSING FINANCE AGENCY

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

interest rates substantially below market, high risk loans, deferred loans, revolving funds, and grants. During fiscal year 2011 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.

Discussion of Individual Funds (continued)

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. The majority of the loans in Single Family have either FHA insurance or a VA or RD guarantee.

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.

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. 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.

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 have been issued for a rental project under construction. The mortgage loan had closed but had yet to be funded as of the end of fiscal year 2011.

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

MINNESOTA HOUSING FINANCE AGENCY

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

General Overview (continued)

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 the Single Family, Residential Housing Finance, and Homeownership Finance bond resolutions and unaudited semiannual disclosure reports for the Rental Housing bond resolution. Recent disclosure reports can be found in the "Investors" section on Minnesota Housing's web site at www.mnhousing.gov.

MINNESOTA HOUSING FINANCE AGENCY
Management's Discussion and Analysis of Financial Condition and
Results of Operations (continued)
Condensed Financial Information

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

		Agency-wide Total		
		As of June 30, 2011	As of June 30, 2010	Change
Assets	Cash and Investments	\$1,449,604	\$1,403,723	\$ 45,881
	Loans receivable, Net	2,065,339	2,268,115	(202,776)
	Interest Receivable	17,601	18,838	(1,237)
	Total Assets	3,614,326	3,785,148	(170,822)
Liabilities	Bonds Payable	2,555,414	2,704,507	(149,093)
	Interest Payable	46,799	48,211	(1,412)
	Accounts Payable and Other Liabilities	17,062	21,582	(4,520)
	Funds Held for Others	96,996	87,425	9,571
	Total Liabilities	2,750,720	2,900,100	(149,380)
Net Assets	Restricted by Bond Resolution	281,199	278,195	3,004
	Restricted by Covenant	469,496	476,902	(7,406)
	Restricted by Law	111,466	128,320	(16,854)
	Total Net Assets	863,606	885,048	(21,442)

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

		Agency-wide Total		
		Fiscal 2011	Fiscal 2010	Change
Revenues	Interest Earned	\$151,328	\$155,845	\$ (4,517)
	Appropriations Received	303,615	284,483	19,132
	Fees and Reimbursements	18,855	17,769	1,086
	Total Revenues (1)	491,613	486,313	5,300
Expenses	Interest Expense	97,189	101,516	(4,327)
	Appropriations Disbursed	286,572	270,185	16,387
	Fees and Reimbursements	6,203	6,725	(522)
	Payroll, Gen. & Admin.	32,753	32,263	490
	Loan Loss/Value Adjust's	71,089	56,486	14,603
	Total Expenses (1)	513,055	486,984	26,071
	Revenues over (under) Expenses	(21,442)	(671)	(20,771)
	Beginning Net Assets	885,048	885,719	(671)
	Ending Net Assets	863,606	885,048	(21,442)

(1) Agency-wide totals include interfund amounts

Combined General Reserve and Bond Funds					Combined State and Federal Appropriations Funds		
As of June 30, 2011			As of		As of		As of
Excluding Pool 3	Pool 3	Total	June 30, 2010	Change	June 30, 2011	June 30, 2010	Change
\$1,324,968	\$ 28,687	\$1,353,655	\$1,302,496	\$ 51,159	\$ 95,949	\$101,227	\$ (5,278)
2,004,893	25,558	2,030,451	2,232,189	(201,738)	34,888	35,926	(1,038)
17,017	348	17,365	18,501	(1,136)	236	337	(101)
3,427,030	54,593	3,481,623	3,642,506	(160,883)	132,703	142,642	(9,939)
2,555,414	-	2,555,414	2,704,507	(149,093)	-	-	-
46,799	-	46,799	48,211	(1,412)	-	-	-
14,922	97	15,019	15,045	(26)	2,043	6,537	(4,494)
78,206	-	78,206	80,301	(2,095)	18,790	7,124	11,666
2,743,392	(13,909)	2,729,483	2,885,778	(156,295)	21,237	14,322	6,915
281,199	-	281,199	278,195	3,004	-	-	-
400,994	68,502	469,496	476,902	(7,406)	-	-	-
-	-	-	-	-	111,466	128,320	(16,854)
683,638	68,502	752,140	756,728	(4,588)	111,466	128,320	(16,854)

Combined General Reserve and Bond Funds					Combined State and Federal Appropriations Funds		
Fiscal 2011			Fiscal 2010		Fiscal 2010		Fiscal 2010
Excluding Pool 3	Pool 3	Total	Fiscal 2010	Change	Fiscal 2011	Fiscal 2010	Change
\$147,917	\$ 1,545	\$149,462	\$ 153,283	\$ (3,821)	\$ 1,866	\$ 2,562	\$ (696)
-	-	-	-	-	303,615	284,483	19,132
15,222	(1,013)	14,209	13,920	289	4,646	3,849	797
180,471	350	180,821	193,930	(13,109)	310,792	292,383	18,409
97,189	-	97,189	101,516	(4,327)	-	-	-
-	-	-	-	-	286,572	270,185	16,387
23,147	1,045	24,192	24,332	(140)	64	72	(8)
23,432	3,782	27,214	27,260	(46)	5,539	5,003	536
22,398	14,416	36,814	34,933	1,881	34,275	21,553	12,722
166,166	19,243	185,409	188,041	(2,632)	327,646	298,943	28,703
14,305	(18,893)	(4,588)	5,889	(10,477)	(16,854)	(6,560)	(10,294)
683,233	73,495	756,728	750,839	5,889	128,320	134,880	(6,560)
683,638	68,502	752,140	756,728	(4,588)	111,466	128,320	(16,854)

MINNESOTA HOUSING FINANCE AGENCY
Management’s Discussion and Analysis of Financial Condition and
Results of Operations (continued)

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 2011 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 9% to \$2,030.5 million at June 30, 2011 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 2011 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 which was only partially offset by a decrease in the homeownership loan delinquency rates as displayed in the following delinquency data. 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 increased due to increased total loan delinquency rates (as displayed in the following delinquency data) and because of an increase in the reserve for inactive loans, which are excluded from the delinquency data. 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 for the multifamily portfolio was relatively unchanged during fiscal year 2011. 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, 2011		June 30, 2010	
Current and less than 60 days past due	15,299	92.0%	16,732	90.8%
60-89 days past due	310	1.9%	414	2.2%
90-119 days past due	149	0.9%	232	1.3%
120+ days past due and foreclosures ⁽¹⁾	862	5.2%	1,057	5.7%
Total count	16,620		18,435	
Total past due ⁽¹⁾	1,321	8.0%	1,703	9.2%

(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.

MINNESOTA HOUSING FINANCE AGENCY
Management’s Discussion and Analysis of Financial Condition and
Results of Operations (continued)

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

Home Improvement Loan Portfolio Delinquency
Actual Loan Count

	June 30, 2011		June 30, 2010	
Current and less than 60 days past due	8,798	97.2%	9,133	97.4%
60-89 days past due	57	0.6%	76	0.8%
90-119 days past due	38	0.4%	48	0.5%
120+ days past due	164	1.8%	123	1.3%
Total count	9,057		9,380	
Total past due	259	2.8%	247	2.6%

The 60+ day delinquency rate as of June 30, 2011 for the entire Minnesota Housing homeownership loan portfolio, excluding those loans not customarily included in foreclosure statistics, exceed by approximately three percentage points the delinquency rates of similar loan data available as of March 31, 2011 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.

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 decreased 32% to \$7.761 million at June 30, 2011 as a result of a decrease in the claim amount per loan.

Real estate owned, net consists of properties acquired upon foreclosure of homeownership loans. Real estate owned increased 2% to \$24.604 million at June 30, 2011 as a result of increased foreclosures within the homeownership portfolio.

While the delinquency rates and foreclosures in the Agency’s loan portfolio remained above historical norms during fiscal year 2011, the combined net total of FHA/VA insurance claims and real estate owned remains immaterial compared to total loans receivable at June 30, 2011, being less than 1.62% 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 increased 4% to \$1,353.7 million at June 30, 2011. The increase is principally a result of two items. First, loans receivable decreased \$201.7 million during fiscal year 2011 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 \$149.1 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 6% to \$17.365 million at June 30, 2011. The decrease is a result of a decrease in interest receivable on loans due to the reduction in the amount of outstanding loans.

Bonds payable, net is the largest single category of liabilities, resulting primarily from debt issued to fund housing-related lending. Bonds payable decreased 6% to \$2,555.4 million at June 30, 2011 because scheduled redemptions and early bond redemptions of existing debt outpaced new bonding issuance.

MINNESOTA HOUSING FINANCE AGENCY

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

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

The companion category of interest payable decreased 3% to \$46.799 million at June 30, 2011 primarily due to a decrease in bonds payable, net during fiscal year 2011.

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 3% to \$78.206 million at June 30, 2011 as multifamily escrows decreased.

Accounts payable and other liabilities were virtually unchanged at \$15.019 million at June 30, 2011. 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 \$1.408 million; and yield compliance liability, which increased \$1.080 million. Minnesota Housing obtains from independent calculation specialists annual calculations of its arbitrage rebate liability. Other accounts payable items increased a net \$0.302 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 decreased 1% to \$752.140 million at June 30, 2011. If Pool 3 net expense were excluded, net assets would have increased 2%.

General Reserve and Bond Funds — Revenues Over Expenses

Revenues over expenses of General Reserve and bond funds decreased 178% from fiscal year 2010 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 decreased 2%. Total expenses, excluding Pool 3, decreased 6% compared to the prior fiscal year. The largest revenue component, interest earned, decreased during fiscal year 2011. Combined interest revenues of General Reserve and bond funds from loans and investments decreased 2% to \$149.462 million compared to the prior fiscal year. Loan interest revenue decreased 10% in fiscal year 2011 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. Investment interest revenue increased 59% in fiscal year 2011 because program mortgage-backed securities were purchased for the first time by the Homeownership Finance bond resolution and because of increased warehousing of mortgage-backed securities in Pool 2.

Administrative reimbursements to General Reserve from bond funds were \$18.053 million in fiscal year 2011 compared to \$17.769 million during the prior fiscal year. The increase is a result of an increase in the total assets of the bond funds upon which the administrative reimbursement is calculated. General Reserve also incurs overhead expenses to administer state and federal appropriated housing programs. General Reserve received overhead reimbursements of \$2.680 million from the State and Federal Appropriated funds to recover certain overhead expenses incurred during fiscal year 2011 compared to \$3.979 million during the prior fiscal year. The decrease is mainly a result of decreased overhead reimbursement from State Appropriated during fiscal year 2011. Investment earnings within the State Appropriated fund were insufficient to reimburse \$5.182 million of cumulative overhead expense.

Other fee income to General Reserve and bond funds of \$11.529 million increased by \$1.588 million compared to the prior fiscal year. The primary components are fees earned from the federal low income

MINNESOTA HOUSING FINANCE AGENCY

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

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

housing tax credit program, Section 8 contract administration, federal Housing Assistance Payments administration, and various loan programs. During fiscal year 2011 the Agency received \$0.691 million as a result of a penalty that was independently calculated and imposed on a former guaranteed investment contract bidder by the United States Department of Justice.

Minnesota Housing recorded \$0.903 million of unrealized losses on investment securities during fiscal year 2011, compared to \$9.048 million of unrealized gains during the prior year, a decrease of \$9.951 million.

Interest expense of the bond funds decreased 4% to \$97.189 million compared to the prior year as a result of a lower amount of outstanding debt during fiscal year 2011.

Combined expenses for loan administration, trustee fees and administrative reimbursements in the bond funds decreased by 1% to \$24.192 million compared to the prior fiscal year. Of the total administrative reimbursement revenue in General Reserve of \$18.053 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 \$17.716 million decreased 1% from the prior year. Other general operating expense in General Reserve and bond funds increased 1% to \$9.498 million compared to the prior fiscal year. Reductions in carrying value of certain low interest rate deferred loans in the bond funds increased 53% to \$14.387 million. The increase related to increased disbursements of deferred subordinated multifamily loans.

Provision for loan loss expense in the bond funds decreased \$3.103 million or 12% to \$22.427 million. The provision for loan loss expense for the homeownership loan portfolio decreased \$4.585 million because new delinquencies (upon which a portion of the provision for loan loss expense is calculated as an estimate) were less than the prior fiscal year. The provision for loan loss expense for the home improvement loan portfolio increased \$0.265 million as a result of the slight increase in loan delinquency rates. The provision for loan loss expense for the homeownership down payment assistance loan portfolio decreased \$0.155 million. The provision for loan loss expense for the multifamily loan portfolio increased \$1.372 million mainly due to newly originated first mortgage loans. The Agency's practice is to assign a general loss provision for newly originated multifamily loans. 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 Investment Fund (Pool 3), if any, and periodic transfers from the bond funds of amounts in excess of bond resolution requirements. During fiscal year 2011, \$10.029 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 Housing Endowment Fund (Pool 1) requirement are transferred periodically to the Housing Investment Fund (Pool 2) for use in housing programs. Pool 2 also recorded a \$13.900 million contribution to Pool 3 to be used for highly subsidized housing programs. Revenues over expenses plus non-operating transfers in the Housing Investment Fund (Pool 2) may be transferred periodically, with approval of the Board, to the Housing Affordability Fund (Pool 3) for use in more highly subsidized housing programs. Board investment guidelines establishes required balances for Pool 1 and Pool 2. In addition, Pool 2 made \$14.256 million in bond sale contributions, as follows: Homeownership Finance bond fund \$13.066 million, Multifamily Housing bond fund \$0.549 million, and Rental Housing bond resolution \$0.641 million.

Combined revenues over expenses, including unrealized gains and losses for General Reserve and the bond funds, decreased \$10.477 million to \$(4.588) 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 102% to \$13.991 million.

Total combined net assets of General Reserve and bond funds decreased 1% to \$752.140 million as of June 30, 2011 as a result of expenses exceeding revenues for fiscal year 2011. The net assets of each individual bond fund increased, except for Residential Housing Finance, as a result of net revenues over expenses by fund and non-operating transfers of assets between funds. After the \$10.029 million transfer of Pool 1 excesses to Pool 2, the net assets of General Reserve decreased \$2.240 million mainly as a result of a

MINNESOTA HOUSING FINANCE AGENCY

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

\$2.029 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, and a \$0.186 million decrease 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, 2011 combined balance decreased 5% to \$95,949 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, 2011 State Appropriated fund net loans receivable decreased 3% to \$34.888 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, 2011 decreased 30% to \$0.236 million primarily as a result of lower interest rates on investments.

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, 2011 was \$2.043 million compared to \$6.537 million at June 30, 2010. The decrease in accounts payable and other liabilities is largely attributable to Section 1602/Exchange program funds received by the Agency at the end of fiscal year 2010 which were then paid to the ultimate recipients of those funds during fiscal year 2011.

For administrative convenience, certain State Appropriated fund loans are administered within the bond funds, resulting in an interfund receivable for the loan disbursement and servicing activities. Interfund payable occurs in the Federal Appropriated fund as a result of overhead expense and indirect cost recoveries owed to General Reserve. At June 30, 2011 the combined net interfund payable was \$0.404 million.

At June 30, 2011 the balance of funds held for others was \$18.790 million. In October 2009 and 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 provide capital funding for permanent supportive housing in seven 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 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 \$18.493 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 \$0.297 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 pledged in respect thereof. The combined net assets of the appropriated funds decreased to \$111.466 million as of June 30, 2011, reflecting combined revenues less than disbursements and expenses during fiscal year 2011.

MINNESOTA HOUSING FINANCE AGENCY

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

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 increased from \$284.483 million in fiscal year 2010 to \$303.615 million at in fiscal year 2011. Federal appropriations received increased by \$12.065 million, mostly due to increased funding in fiscal year 2011 for Section 8 contract administration, the National Stabilization Program (NSP), the Tax Credit Assistance Program (TCAP), and the Section 1602/ Exchange Program. These increases were partially offset by a decrease in HOME program funds. State appropriations received increased by \$3.637 million, mainly due to appropriations received for debt service and other expenses for the nonprofit housing bonds.

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 34% to \$1.585 million for fiscal year 2011.

Loan interest income from State Appropriations loan assets continues to be minimal at \$0.281 million as relatively few loans bear interest.

Fees earned and other income in the amount of \$2.175 million were recorded in the State Appropriated fund during fiscal year 2011. This consisted mainly of private donations and interagency transfers of funds to support certain state housing programs. Fees earned and other income of \$3.667 million were recorded in the Federal Appropriation fund in fiscal year 2011. 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 losses of \$0.531 million were recorded at June 30, 2011 compared to \$0.641 million unrealized losses at June 30, 2010.

Administrative reimbursements to General Reserve of overhead expenses to administer State Appropriated fund programs decreased 44% to \$1.196 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 2011 investment earnings in the State Appropriated fund were insufficient to reimburse \$5.182 million of overhead expenses incurred in General Reserve during this fiscal year and unreimbursed expenses for the last fiscal year. Combined appropriations disbursed increased 6% to \$286.572 million compared to the prior fiscal year, reflecting State Appropriations disbursed of \$29.656 million and federal appropriations disbursed of \$256.916 million.

Increased 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 increased 62% to \$32.544 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 increased 3% to \$1.872 million at June 30, 2011. Other general operating expenses in the Federal Appropriation fund of \$3.667 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 \$16.854 million at June 30, 2011. Ultimately, the entire State and Federal Appropriated funds' net assets will be expended for housing programs.

MINNESOTA HOUSING FINANCE AGENCY

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Significant Long-Term Debt Activity

Minnesota Housing issues a significant amount of bonds, having outstanding at June 30, 2011 long-term bonds totaling \$2,202.1 million and short-term bonds totaling \$350.9 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, 2011, 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 2011 fiscal year, Minnesota Housing issued 11 series of bonds and notes aggregating \$1,391.1 million, compared to the issuance of eight series totaling \$1,384.9 million the previous fiscal year. Aided by the United States Treasury's New Issue Bond Program, long-term debt issuance to finance mortgage lending was more robust in fiscal year 2011 than it was in recent recessionary years. 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 \$1,484.9 million in principal payments and \$97.2 million of interest payments were made during fiscal year 2011. Of the total principal payments, \$1,294.9 million retired short-term debt and \$144.6 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 10-year rule) that prohibits refunding of mortgage repayments and prepayments received more than ten years after the date of issuance of the bonds that financed such mortgage loans.

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.)

The Agency also had outstanding at June 30, 2011 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, 2011 Minnesota Housing's issuer 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.

MINNESOTA HOUSING FINANCE AGENCY

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Significant Factors That May Affect Financial Condition and/or Operations

Legislative Actions

Following protracted negotiations, the Governor and legislature agreed on a package of measures to address the state's \$5 billion deficit. As part of the package, state appropriations to the agency were reduced by 6.3%, for a base biennial budget of \$76.096 million. The base for the previous biennium was \$82 million. The reduction was slightly larger than that proposed by the Governor, but was less than either of the House or Senate bills.

Federal Stimulus Funds

As part of the Housing and Economic Recovery Act 2008 (HERA), Congress established the Neighborhood Stabilization Program (NSP) and the U.S. Treasury sponsored New Issue Bond Program (NIBP). Congress has funded the NSP program three times: once through HERA, once through the American Recovery and Reinvestment Act of 2009 (ARRA), and a third time through the Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank). HERA and Dodd-Frank NSP funds were allocated among states and communities on a formula basis. The Governor designated Minnesota Housing as the administrator of the \$38.8 million HERA and the \$5 million Dodd-Frank allocations to the state, of which it has disbursed \$30.7 million. Minnesota Housing has used both state appropriations and Agency resources to assist with efforts to remediate neighborhoods in the state hardest hit by the foreclosure crisis.

NIBP has provided competitive bond interest rates in an otherwise difficult bond market. The program is scheduled to end December 31, 2011.

ARRA included two funding programs to assist housing tax credit projects that were stalled due to the unfavorable tax credit market. The Agency administers \$28.4 million under the Tax Credit Assistance program (TCAP) and over \$62 million under the Section 1602/Exchange Program.

100% of the TCAP grant amount has been committed to projects and 99.98% has been expended; 100% of the Section 1602/Exchange funds have been committed to projects and 92.3% has been disbursed.

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. Loan delinquencies and foreclosures were lower in fiscal year 2011 for the homeownership portfolio and slightly higher for the home improvement portfolios 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.

The Agency transitioned to a mortgage-backed securities business model during fiscal year 2010. This model was adopted to minimize losses on future homeownership lending.

Liquidity Facilities for Variable Rate Bonds

Standby liquidity facilities for certain variable rate bonds are scheduled to expire in calendar year 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 (651-296-7608 or 800-657-3769 or if T.T.Y. 651-297-2361)

MINNESOTA HOUSING FINANCE AGENCY**Agency-wide Financial Statements****Statement of Net Assets (in thousands)****As of June 30, 2011 (with comparative totals as of June 30, 2010)**

	Agency-wide Total as of June 30, 2011	Agency-wide Total as of June 30, 2010
Assets		
Cash and cash equivalents	\$ 527,605	\$ 646,706
Investments- program mortgage-backed securities	356,227	\$33,686
Investment securities- other	565,772	723,331
Loans receivable, net	2,065,339	2,268,115
Interest receivable on loans	14,142	16,287
Interest receivable on investments	3,459	2,551
Deferred loss on interest rate swap agreements	30,815	37,077
FHA/VA insurance claims, net	7,761	11,407
Real estate owned, net	24,604	24,026
Unamortized bond issuance costs	13,307	12,927
Capital assets, net	1,445	1,631
Other assets	3,850	7,404
Total assets	<u>\$3,614,326</u>	<u>\$3,785,148</u>
Liabilities		
Bonds payable, net	\$2,555,414	\$2,704,507
Interest payable	46,799	48,211
Interest rate swap agreements	30,815	37,077
Deferred revenue- service release fees	3,634	1,298
Accounts payable and other liabilities	17,062	21,582
Funds held for others	96,996	87,425
Total liabilities	<u>2,750,720</u>	<u>2,900,100</u>
Commitments and contingencies		
Net Assets		
Restricted by bond resolution	281,199	278,195
Restricted by covenant	469,496	476,902
Restricted by law	111,466	128,320
Invested in capital assets	1,445	1,631
Total net assets	<u>863,606</u>	<u>885,048</u>
Total liabilities and net assets	<u>\$3,614,326</u>	<u>\$3,785,148</u>

See accompanying notes to financial statements.

MINNESOTA HOUSING FINANCE AGENCY**Agency-wide Financial Statements****Statement of Activities (in thousands)****Year ended June 30, 2011 (with comparative totals as of June 30, 2010)**

		Agency-wide Total for the Year Ended <u>June 30, 2011</u>	Agency-wide Total for the Year Ended <u>June 30, 2010</u>
Revenues	Interest earned on loans	\$123,823	\$137,118
	Interest earned on investments- program mortgage-backed securities	7,814	702
	Interest earned on investments- other	19,691	18,025
	Appropriations received	303,615	284,483
	Administrative reimbursement	1,484	1,849
	Fees earned and other income	17,371	15,920
	Unrealized gains on investments	<u>(1,434)</u>	<u>8,407</u>
	Total revenues	<u>472,364</u>	<u>466,504</u>
Expenses	Interest	97,189	101,516
	Loan administration and trustee fees	6,203	6,725
	Salaries and benefits	17,716	17,815
	Other general operating	15,037	14,448
	Appropriations disbursed	286,572	270,185
	Reduction in carrying value of certain low interest rate deferred loans	46,931	29,441
	Provision for loan losses	<u>24,158</u>	<u>27,045</u>
	Total expenses	<u>493,806</u>	<u>467,175</u>
	Change in net assets	(21,442)	(671)
Net Assets	Total net assets, beginning of year	<u>885,048</u>	<u>885,719</u>
	Total net assets, end of year	<u><u>\$863,606</u></u>	<u><u>\$885,048</u></u>

See accompanying notes to financial statements

MINNESOTA HOUSING FINANCE AGENCY

Fund Financial Statements

Statement of Net Assets (in thousands)

Proprietary Funds

Year ended June 30, 2011 (with comparative totals as of June 30, 2010)

		Bond Funds			
		General Reserve	Rental Housing	Residential Housing Finance	Single Family
Assets	Cash and cash equivalents	\$ 57,539	\$ 45,721	\$ 223,081	\$ 38,088
	Investments- program mortgage-backed securities	-	-	33,002	-
	Investment securities- other	45,318	40,757	425,165	11,537
	Loans receivable, net	-	171,839	1,741,123	117,871
	Interest receivable on loans	-	944	12,271	860
	Interest receivable on investments	257	694	976	108
	Deferred loss on interest rate swap agreements	-	-	30,815	-
	FHA/VA insurance claims, net	-	-	6,747	1,014
	Real estate owned, net	-	-	23,804	800
	Unamortized bond issuance costs	-	1,752	8,564	631
	Capital assets, net	1,445	-	-	-
	Other assets	1,320	5	162	721
	Total assets	<u>\$105,879</u>	<u>\$261,712</u>	<u>\$2,505,710</u>	<u>\$171,630</u>
Liabilities	Bonds payable, net	\$ -	\$157,692	\$1,883,409	\$ 97,505
	Interest payable	-	3,063	37,701	2,525
	Interest rate swap agreements	-	-	30,815	-
	Deferred revenue- service release fees	-	-	3,634	-
	Accounts payable and other liabilities	5,481	5,801	3,223	462
	Interfund payable (receivable)	879	(1)	(1,347)	63
	Funds held for others	77,590	-	616	-
	Total liabilities	<u>83,950</u>	<u>166,555</u>	<u>1,958,051</u>	<u>100,555</u>
	Commitments and contingencies				
Net Assets	Restricted by bond resolution	-	95,157	98,647	71,075
	Restricted by covenant	20,484	-	449,012	-
	Restricted by law	-	-	-	-
	Invested in capital assets	1,445	-	-	-
	Total net assets	<u>21,929</u>	<u>95,157</u>	<u>547,659</u>	<u>71,075</u>
	Total liabilities and net assets	<u>\$105,879</u>	<u>\$261,712</u>	<u>\$2,505,710</u>	<u>\$171,630</u>

See accompanying notes to financial statements

Bond Funds		Appropriated Funds			
Homeownership Finance	Multifamily Housing	State Appropriated	Federal Appropriated	Total as of June 30, 2011	Total as of June 30, 2010
\$ 93,735	\$15,523	\$ 52,042	\$ 1,876	\$ 527,605	\$ 646,706
323,225	-	-	-	356,227	33,686
486	478	32,968	9,063	565,772	723,331
-	(382)	34,888	-	2,065,339	2,268,115
-	54	13	-	14,142	16,287
1,197	4	190	33	3,459	2,551
-	-	-	-	30,815	37,077
-	-	-	-	7,761	11,407
-	-	-	-	24,604	24,026
2,195	165	-	-	13,307	12,927
-	-	-	-	1,445	1,631
12	-	-	1,630	3,850	7,404
<u>\$420,850</u>	<u>\$15,842</u>	<u>\$120,101</u>	<u>\$12,602</u>	<u>\$3,614,326</u>	<u>\$3,785,148</u>
\$401,808	\$15,000	\$ -	\$ -	\$2,555,414	\$2,704,507
3,472	38	-	-	46,799	48,211
-	-	-	-	30,815	37,077
-	-	-	-	3,634	1,298
52	-	268	1,775	17,062	21,582
2	-	39	365	-	-
-	-	18,493	297	96,996	87,425
<u>405,334</u>	<u>15,038</u>	<u>18,800</u>	<u>2,437</u>	<u>2,750,720</u>	<u>2,900,100</u>
15,516	804	-	-	281,199	278,195
-	-	-	-	469,496	476,902
-	-	101,301	10,165	111,466	128,320
-	-	-	-	1,445	1,631
<u>15,516</u>	<u>804</u>	<u>101,301</u>	<u>10,165</u>	<u>863,606</u>	<u>885,048</u>
<u>\$420,850</u>	<u>\$15,842</u>	<u>\$120,101</u>	<u>\$12,602</u>	<u>\$3,614,326</u>	<u>\$3,785,148</u>

MINNESOTA HOUSING FINANCE AGENCY

Fund Financial Statements

Statement of Revenues, Expenses, and Changes in Net Assets (in thousands)

Proprietary Funds

Year ended June 30, 2011 (with comparative totals as of June 30, 2010)

		Bond Funds		
		General Reserve	Rental Housing	Residential Housing Finance
Revenues	Interest earned on loans	\$ -	\$10,055	\$105,346
	Interest earned on investments- program mortgage-backed securities	-	-	1,321
	Interest earned on investments- other	292	2,045	13,129
	Appropriations received	-	-	-
	Administrative reimbursement	20,733	-	-
	Fees earned and other income	10,289	616	621
	Unrealized gains (losses) on investments	(95)	(859)	389
	Total revenues	<u>31,219</u>	<u>11,857</u>	<u>120,806</u>
Expenses	Interest	-	7,736	79,411
	Loan administration and trustee fees	-	141	5,539
	Administrative reimbursement	-	1,555	14,829
	Salaries and benefits	17,716	-	-
	Other general operating	5,714	-	3,784
	Appropriations disbursed	-	-	-
	Reduction in carrying value of certain low interest rate deferred loans	-	964	13,423
	Provision for loan losses	-	138	21,952
Total expenses	<u>23,430</u>	<u>10,534</u>	<u>138,938</u>	
	Revenues over (under) expenses	7,789	1,323	(18,132)
Other changes	Non-operating transfer of assets between funds	<u>(10,029)</u>	<u>641</u>	<u>(4,227)</u>
	Change in net assets	(2,240)	1,964	(22,359)
Net Assets	Total net assets, beginning of year	<u>24,169</u>	<u>93,193</u>	<u>570,018</u>
	Total net assets, end of year	<u>\$21,929</u>	<u>\$95,157</u>	<u>\$547,659</u>

See accompanying notes to financial statements.

Bond Funds			Appropriated Funds		Total for the Year Ended June 30, 2011	Total for the Year Ended June 30, 2010
Single Family	Homeownership Finance	Multifamily Housing	State Appropriated	Federal Appropriated		
\$ 7,787	\$ -	\$354	\$ 281	\$ -	\$123,823	\$137,118
-	6,493	-	-	-	7,814	702
2,349	274	17	1,248	337	19,691	18,025
-	-	-	47,801	255,814	303,615	284,483
-	-	-	-	-	20,733	21,658
-	-	3	2,175	3,667	17,371	15,920
(565)	224	3	(350)	(181)	(1,434)	8,407
9,571	6,991	377	51,155	259,637	491,613	486,313
5,539	4,304	199	-	-	97,189	101,516
405	55	(1)	64	-	6,203	6,725
1,069	568	32	1,196	-	19,249	19,809
-	-	-	-	-	17,716	17,815
-	-	-	1,872	3,667	15,037	14,448
-	-	-	29,656	256,916	286,572	270,185
-	-	-	32,544	-	46,931	29,441
337	-	-	1,731	-	24,158	27,045
7,350	4,927	230	67,063	260,583	513,055	486,984
2,221	2,064	147	(15,908)	(946)	(21,442)	(671)
-	13,066	549	-	-	-	-
2,221	15,130	696	(15,908)	(946)	(21,442)	(671)
68,854	386	108	117,209	11,111	885,048	885,719
<u>\$71,075</u>	<u>\$15,516</u>	<u>\$804</u>	<u>\$101,301</u>	<u>\$10,165</u>	<u>\$863,606</u>	<u>\$885,048</u>

MINNESOTA HOUSING FINANCE AGENCY

Fund Financial Statements

Statement of Cash Flows (in thousands)

Proprietary Funds

Year ended June 30, 2011 (with comparative totals as of June 30, 2010)

		Bond Funds		
		General Reserve	Rental Housing	Residential Housing Finance
Cash flows from operating activities	Principal repayments on loans and program mortgage-backed securities	\$ -	\$21,046	\$ 155,398
	Investment in loans/loan modifications and program mortgage-backed securities	-	(14,440)	(74,043)
	Interest received on loans and program mortgage-backed securities	-	10,997	101,893
	Other operating	-	-	(3,686)
	Fees and other income received	10,231	616	4,256
	Salaries, benefits and vendor payments	(21,918)	(145)	(7,220)
	Appropriations received	-	-	-
	Appropriations disbursed	-	-	-
	Administrative reimbursement from funds	21,026	(1,555)	(14,829)
	Deposits into funds held for others	31,942	-	-
	Disbursements made from funds held for others	(35,135)	-	-
	Interfund transfers and other assets	(1,155)	(1)	153
	Net cash provided (used) by operating activities	<u>4,991</u>	<u>16,518</u>	<u>161,922</u>
Cash flows from noncapital financing activities	Proceeds from sale of bonds and notes	-	23,125	1,939,445
	Principal repayment on bonds and notes	-	(15,880)	(2,217,165)
	Interest paid on bonds and notes	-	(7,106)	(82,654)
	Financing costs paid related to bonds issued	-	(430)	(839)
	Interest paid/received between funds	-	-	(482)
	Principal paid/received between funds	-	-	-
	Premium paid on redemption of bonds	-	-	-
	Agency contribution to program funds	-	641	(3,957)
Transfer of cash between funds	(11,057)	-	11,057	
Net cash provided (used) by noncapital financing activities	<u>(11,057)</u>	<u>350</u>	<u>(354,595)</u>	
Cash flows from investing activities	Investment in real estate owned	-	-	(4,387)
	Interest received on investments	1,524	2,164	11,833
	Proceeds from sale of mortgage insurance claims/real estate owned	-	-	71,074
	Proceeds from maturity, sale or transfer of investment securities	25,000	28,135	1,772,099
	Purchase of investment securities	(15,053)	(37,703)	(1,645,898)
	Purchase of loans between funds	-	-	1,856
Net cash provided (used) by investing activities	<u>11,471</u>	<u>(7,404)</u>	<u>206,577</u>	
Net increase (decrease) in cash and cash equivalents		5,405	9,464	13,904
Cash and cash equivalents:	Beginning of year	<u>52,134</u>	<u>36,257</u>	<u>209,177</u>
	End of year	<u>\$ 57,539</u>	<u>\$45,721</u>	<u>\$ 223,081</u>

See accompanying notes to financial statements

Bond Funds			Appropriated Funds		Total for the Year Ended June 30, 2011	Total for the Year Ended June 30, 2010
Single Family	Homeownership Finance	Multifamily Housing	State Appropriated	Federal Appropriated		
\$ 14,328	\$ 3,175	\$ -	\$ 3,462	\$ -	\$ 197,409	\$ 168,347
(109)	(316,300)	382	(34,755)	-	(439,265)	(164,519)
7,332	6,896	300	282	-	127,700	130,382
-	-	-	(1,874)	(3,667)	(9,227)	(4,862)
-	-	3	2,175	3,667	20,948	14,247
(414)	(75)	(3)	(64)	-	(29,839)	(29,754)
-	-	-	47,801	259,341	307,142	284,336
-	-	-	(30,399)	(260,806)	(291,205)	(270,969)
(1,069)	(568)	(32)	(1,430)	-	1,543	2,087
-	-	-	21,879	-	53,821	42,670
-	-	-	(10,215)	-	(45,350)	(39,987)
(19)	-	-	25	-	(997)	(1,179)
20,049	(306,872)	650	(3,113)	(1,465)	(107,320)	130,799
-	141,613	-	-	-	2,104,183	1,440,910
(18,900)	-	-	-	-	(2,251,945)	(1,208,085)
(5,768)	(959)	(167)	-	-	(96,654)	(100,549)
-	(2,053)	(60)	-	-	(3,382)	(2,650)
482	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	2,767	549	-	-	-	-
-	-	-	-	-	-	-
(24,186)	141,368	322	-	-	(247,798)	129,626
(677)	-	-	-	-	(5,064)	(3,557)
2,134	(923)	13	1,332	203	18,280	17,171
5,655	-	-	-	-	76,729	64,797
6,872	-	-	60,085	10,498	1,902,689	1,362,531
(13,393)	(476)	(475)	(32,789)	(10,830)	(1,756,617)	(1,465,447)
-	-	-	(1,856)	-	-	-
591	(1,399)	(462)	26,772	(129)	236,017	(24,505)
(3,546)	(166,903)	510	23,659	(1,594)	(119,101)	235,920
41,634	260,638	15,013	28,383	3,470	646,706	410,786
<u>\$ 38,088</u>	<u>\$ 93,735</u>	<u>\$ 15,523</u>	<u>\$ 52,042</u>	<u>\$ 1,876</u>	<u>\$ 527,605</u>	<u>\$ 646,706</u>

(Continued)

MINNESOTA HOUSING FINANCE AGENCY

Fund Financial Statements

Statement of Cash Flows (in thousands)

Proprietary Funds (continued)

Year ended June 30, 2011 (with comparative totals as of June 30, 2010)

		Bond Funds		
		General Reserve	Rental Housing	Residential Housing Finance
Reconciliation of revenue over (under) expenses to net cash provided (used) by operating activities	Revenues over (under) expenses	\$ 7,789	\$ 1,323	\$ (18,132)
	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	-	(62)	1,248
	Depreciation	1,540	-	-
	Realized losses (gains) on sale of securities, net	(5)	77	183
	Unrealized losses (gains) on securities, net	95	859	(389)
	Provision for loan losses	-	138	21,952
	Reduction in carrying value of certain low interest rate and/or deferred loans	-	964	13,423
	Capitalized interest on loans and real estate owned	-	(105)	(7,965)
	Interest earned on investments	(287)	(2,251)	(12,404)
	Interest expense on bonds and notes	-	7,736	79,411
	Changes in assets and liabilities:			
	Decrease (increase) in loans receivable and program mortgage-backed securities, excluding loans transferred between funds	-	6,606	81,355
	Decrease (increase) in interest receivable on loans	-	29	1,943
	Increase (decrease) in arbitrage rebate liability	-	1,209	(908)
	Increase (decrease) in accounts payable	(24)	(2)	2,097
	Increase (decrease) in interfund payable, affecting operating activities only	285	(1)	(17)
	Increase (decrease) in funds held for others	(3,193)	-	-
	Other	(1,209)	(2)	125
	Total	<u>(2,798)</u>	<u>15,195</u>	<u>180,054</u>
	Net cash provided (used) by operating activities	<u>\$ 4,991</u>	<u>\$ 16,518</u>	<u>\$ 161,922</u>

See accompanying notes to financial statements

Bond Funds			Appropriated Funds		Total for the Year Ended June 30, 2011	Total for the Year Ended June 30, 2010
Single Family	Homeownership Finance	Multifamily Housing	State Appropriated	Federal Appropriated		
\$ 2,221	\$ 2,064	\$ 147	\$ (15,908)	\$ (946)	\$ (21,442)	\$ (671)
(175)	403	-	-	-	1,414	690
-	-	-	-	-	1,540	2,590
(271)	-	-	(30)	(153)	(199)	469
565	(224)	(3)	350	181	1,434	(8,407)
337	-	-	1,731	-	24,158	27,045
-	-	-	32,544	-	46,931	29,442
(506)	-	-	-	-	(8,576)	(6,724)
(2,164)	(274)	(17)	(1,218)	(185)	(18,800)	(18,504)
5,539	4,304	199	-	-	97,189	101,515
14,219	(313,125)	382	(31,293)	-	(241,856)	3,828
226	-	(54)	1	-	2,145	(1,038)
86	-	-	-	-	387	126
(6)	(20)	(4)	(745)	(3,836)	(2,540)	2,987
(19)	-	-	(209)	(48)	(9)	-
-	-	-	11,664	-	8,471	2,682
(3)	-	-	-	3,522	2,433	(5,231)
17,828	(308,936)	503	12,795	(519)	(85,878)	131,470
\$ 20,049	\$ (306,872)	\$ 650	\$ (3,113)	\$ (1,465)	\$ (107,320)	\$ 130,799

MINNESOTA HOUSING FINANCE AGENCY

Notes to Financial Statements

Year ended June 30, 2011

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 and certain mortgage-backed securities warehoused for a Minnesota local governmental housing and redevelopment authority, funds deposited therein would otherwise be available to be transferred to General Reserve. The Alternative Loan

MINNESOTA HOUSING FINANCE AGENCY

Notes to Financial Statements

Year ended June 30, 2011 (continued)

**Nature of
Business and
Fund Structure
(continued)**

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 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 2011 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, 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 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 2011 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. The Agency generally expects to issue bonds for homeownership programs under Homeownership Finance. Loans in Single Family are secured by first mortgages on real property.

The Single Family 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.

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. 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 this fiscal year by bonds issued under this resolution.

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 have been issued for a rental housing project that is under construction. The mortgage loan had closed but had yet to be funded as of the end of fiscal year 2011.

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-

MINNESOTA HOUSING FINANCE AGENCY

Notes to Financial Statements

Year ended June 30, 2011 (continued)

Nature of Business and Fund Structure (continued)

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.

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 June 2010, the GASB issued Statement No. 59, *Financial Instruments Omnibus*. The objective of this Statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. This Statement provides amendments for the following: National Council on Governmental Accounting Statement No. 4, Accounting and Financial Reporting Principles for Claims and Judgments and Compensated Absences; Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans; Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans; Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools; Statement No. 40, Deposit and Investment Risk Disclosures; and Statement No. 53, Accounting and Financial Reporting for Derivative Instruments. The provisions of GASB Statement No. 59 are effective for the Agency's fiscal year ended June 30, 2011. The adoption of this statement did not affect the Agency's 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,

MINNESOTA HOUSING FINANCE AGENCY

Notes to Financial Statements

Year ended June 30, 2011 (continued)

Summary of Significant Accounting Policies (continued)

unrealized gains and losses on investments of multifamily development escrow funds resulting from changes in market valuation are recorded as funds held for others. Also, unrealized loss on investments on mortgage-backed securities warehoused for a Minnesota local governmental housing and redevelopment authority is recorded as a deferred loss. 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 or discounts and fees.

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

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

For homeownership and home improvement loans, the Agency establishes varying amounts of reserves depending upon the number of delinquent loans, the 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, 2011.

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

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 2011. 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.

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2011 (continued)

**Summary of
Significant
Accounting
Policies
(continued)**

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.

Interest Rate Swap Agreements

Because the Agency's interest rate swap agreements have a negative fair value as of the end of fiscal year 2011 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 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.

MINNESOTA HOUSING FINANCE AGENCY

Notes to Financial Statements

Year ended June 30, 2011 (continued)

Summary of Significant Accounting Policies (continued)

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.

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 2010 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 \$1.487 million are reflected as administrative reimbursement revenues in the General Reserve.

Administrative reimbursements in the amount of \$19.249 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 Credits 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.

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2011 (continued)

**Summary of
Significant
Accounting
Policies
(continued)**

Reduction in Carrying Value of Certain Low Interest Rate Deferred Loans

The carrying value of certain Housing Affordability Fund (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 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 2011 were \$78.1 million and \$4.2 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.

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.

MINNESOTA HOUSING FINANCE AGENCY

Notes to Financial Statements

Year ended June 30, 2011 (continued)

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, 2011 (in thousands):

Cash and Cash Equivalents

Funds	Deposits	Money Market Fund	State Investment Pool	Investment Agreements	Combined Totals
General Reserve Account	\$ -	\$ -	\$57,539	\$ -	\$ 57,539
Federal Appropriated Accounts	-	1,568	308	-	1,876
State Appropriated Accounts	142	18,411	33,489	-	52,042
Rental Housing	5	23,580	-	22,136	45,721
Residential Housing Finance	1,245	117,900	-	103,936	223,081
Single Family	231	4,492	-	33,365	38,088
Homeownership Finance	-	93,735	-	-	93,735
Multifamily Housing	-	15,523	-	-	15,523
Combined Totals	\$1,623	\$275,209	\$91,336	\$159,437	\$527,605

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.

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, 2011, all the investment agreement providers, or the investment agreement guarantors if more highly rated, had a Standard & Poor's long-term credit rating of "A+" or higher and a Moody's long-term credit rating of "A1" or higher, except for Depfa Bank PLC's Standard & Poor'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 (\$33.942 million) and Credit Agricole CIB (\$11.503 million) require downgrade to the ratings on the related bonds before triggering the termination clauses. Because Depfa Bank PLC's rating is "BBB" from Standard & Poor's and Credit Agricole CIB's ratings was downgraded by Standard and Poor's to "A+" during fiscal year 2011, the Agency reduced the carrying value of those agreements by \$0.612 million as of June 30, 2011.

MINNESOTA HOUSING FINANCE AGENCY

Notes to Financial Statements

Year ended June 30, 2011 (continued)

Cash, Cash Equivalents and Investment Securities (continued)

Investment securities (comprising U.S. Treasury securities, U.S. Agency securities, certificates of deposit, commercial paper and corporate notes) are recorded at fair market value and were allocated to the following funds at June 30, 2011 (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	\$ 45,238	\$ -	\$ 80	\$ 45,318
Federal Appropriated Accounts	8,990	-	73	9,063
State Appropriated Accounts	32,759	-	209	32,968
Rental Housing	40,839	-	(82)	40,757
Residential Housing Finance	421,872	31,680	4,615	458,167
Single Family Mortgage	11,511	-	26	11,537
Homeownership Finance	477	317,995	5,239	323,711
Multifamily Housing	475	-	3	478
Combined Totals	<u>\$562,161</u>	<u>\$349,675</u>	<u>\$10,163</u>	<u>\$921,999</u>

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. Certificates of deposit pledged as collateral for certain limited obligation notes with the Federal Home Loan Bank of Des Moines are held by the Federal Home Loan Bank of Des Moines in the Agency's name.

Investment securities are subject to credit risk. The following table classifies investment securities by their lowest Standard & Poor's/Moody's rating. U.S. Treasury securities are not classified because they are not considered to have credit risk. Investment securities' credit rating categories (without qualifiers) at June 30, 2011 were (in thousands):

Credit Ratings of Investment Securities			
Type	Par Value	AAA/Aaa	AA/Aa
Certificates of deposit	\$265,870	\$265,870	\$ —
U.S. Agencies	603,755	603,755	—
Municipals	24,090	—	24,090
Agency-wide Totals	<u>\$893,715</u>	<u>\$869,625</u>	<u>\$ 24,090</u>
U.S. Treasuries	10,983	—	—
Agency-wide Totals	<u>\$904,698</u>	—	—

MINNESOTA HOUSING FINANCE AGENCY

Notes to Financial Statements

Year ended June 30, 2011 (continued)

Cash, Cash Equivalents and Investment Securities (continued)

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 \$3.613 million and net discounts of \$1.249 million), along with the weighted average maturities (in years) as of June 30, 2011, 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 Appropriated	Federal Appropriated
Deposits	\$ 1,623	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Certificates of deposit	\$ 265,870	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial paper	-	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Money market fund	\$ 275,209	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
State investment pool	\$ 91,336	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Investment agreements	\$ 159,437	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
US Agencies	\$ 603,755	1.7	13.2	24.0	13.6	29.1	14.8	2.3	14.6
US Treasuries	\$ 10,983	0.0	0.0	8.7	5.6	0.0	0.0	0.0	6.4
Municipals	\$ 24,090	0.0	0.0	0.0	0.0	0.0	0.0	13.7	0.0
Corporate notes	\$ 5,200	0.0	0.0	0.0	0.0	0.0	0.0	1.1	0.0
Agency-wide Totals	<u>\$1,437,503</u>								
Weighted Average Maturity		0.7	6.3	5.9	3.1	22.4	0.4	1.8	9.8

Investments in any one issuer, excluding \$.406 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, 2011 were as follows (in thousands):

Investment Issuer	Amount
Federal Home Loan Bank of Des Moines, certificates of deposit	\$265,870
Federal National Mortgage Association, U.S. Agencies	103,868

The Agency maintained certain deposits and investments throughout fiscal year 2011 that were subject to custodial credit risk. As of June 30, 2011, the amounts subject to this risk consisted of the following (in thousands):

	Amount
Deposits not covered by depository insurance and uncollateralized (including \$275,209 in a money market fund and \$91,336 in the State investment pool)	\$ 368,168
Investment securities (which excludes investment agreements) uninsured, uncollateralized and not held in the Agency's name	994,087
Agency-wide Total	<u>\$1,362,255</u>

Net realized gain on sale of investment securities of \$0.199 million is included in interest earned on investments.

Certain balances are required to be maintained under the various bond resolutions. These balances represent debt service and insurance reserves. The required balances at June 30, 2011 were as follows (in thousands):

Funds	Amount
Multifamily Housing Bonds	\$ 479
Rental Housing	19,493
Residential Housing Finance	48,162
Single Family Mortgage	6,375
Combined Totals	<u>\$74,509</u>

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2011 (continued)

Loans Receivable,
Net

Loans receivable, net at June 30, 2011 consisted of (in thousands):

Funds	Outstanding Principal	Allowance for Loan Losses	Unamortized Premiums (Discounts) and Fees	Loans Receivable, Net
General Reserve	\$ -	\$ -	\$ -	\$ -
Rental Housing	180,456	(7,249)	(1,368)	171,839
Residential Housing Finance	1,774,876	(34,505)	752	1,741,123
Single Family	119,701	(1,077)	(753)	117,871
Multifamily Housing	-	-	(382)	(382)
State Appropriated	36,224	(1,336)	-	34,888
Federal Appropriated	-	-	-	-
Agency-wide Totals	<u>\$2,111,257</u>	<u>\$(44,167)</u>	<u>\$(1,751)</u>	<u>\$2,065,339</u>

Substantially all loans in the table above are secured by first or second mortgages on the real property financed. The majority of the loans in the Single Family fund and 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. Losses on mortgage loans in the Single Family fund are also secured by an insurance reserve fund established under the bond resolution.

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 2011 the unpaid principal amount of loans with such characteristics aggregated \$9.588 million in the Residential Housing Finance Housing Affordability Fund (Pool 3), \$0.944 million in Rental Housing and \$34.843 million in State Appropriated. Loans with net carrying values of zero are excluded from the tables above and below.

Loans receivable, net and gross in Residential Housing Finance at June 30, 2011 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	\$1,408,913	\$1,420,589
Other homeownership loans, generally secured by a second mortgage	1,918	1,988
Alternative Loan Fund, Housing Investment Fund (Pool 2):		
Home Improvement loans, generally secured by a second mortgage	111,670	114,506
Homeownership, first mortgage loans	35,067	36,700
Multifamily, first mortgage loans	157,996	174,438
Alternative Loan Fund, Housing Affordability Fund (Pool 3):		
Other homeownership loans, generally secured by a second mortgage	25,559	26,655
Residential Housing Finance Totals	<u>\$1,741,123</u>	<u>\$1,774,876</u>

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.

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2011 (continued)

Other Assets

Other assets, including receivables, at June 30, 2011 consisted of the following (in thousands):

Funds	Receivables Due from the Federal Government	Other Assets and Receivables	Total
General Reserve	\$1,310	\$ 10	\$1,320
Rental Housing	—	5	5
Residential Housing Finance	—	162	162
Single Family	—	721	721
Homeownership Finance	—	12	12
Multifamily Housing	—	—	—
State Appropriated	—	—	—
Federal Appropriated	1,630	—	1,630
Agency-wide Totals	<u>\$2,940</u>	<u>\$910</u>	<u>\$3,850</u>

**Bonds Payable,
Net**

Bonds payable, net at June 30, 2011 were as follows (in thousands):

Funds	Par Bonds Outstanding	Net Unamortized Premium and Deferred Fees	Net Unamortized Deferred Loss	Bonds Payable, Net
Rental Housing	\$ 159,200	\$ -	\$(1,508)	\$ 157,692
Residential Housing Finance	1,881,285	2,503	(379)	1,883,409
Single Family	97,505	-	-	97,505
Homeownership Finance	399,990	1,818	-	401,808
Multifamily Housing	15,000	-	-	15,000
Totals	<u>\$2,552,980</u>	<u>\$4,321</u>	<u>\$(1,887)</u>	<u>\$2,555,414</u>

Summary of bond activity from June 30, 2010 to June 30, 2011 (in thousands):

Funds	June 30, 2010 Bonds Outstanding, at Par	Par Issued	Par Repaid	June 30, 2011 Bonds Outstanding, at Par
Rental Housing	\$ 151,955	\$ 23,125	\$ 15,880	\$ 159,200
Residential Housing Finance	2,103,005	1,228,445	1,450,165	1,881,285
Single Family	116,405	-	18,900	97,505
Homeownership Finance	260,490	139,500	-	399,990
Multifamily Housing	15,000	-	-	15,000
Totals	<u>\$ 2,646,855</u>	<u>\$ 1,391,070</u>	<u>\$ 1,484,945</u>	<u>\$ 2,552,980</u>

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2011 (continued)

Bonds Payable,
Net
(continued)

Bonds payable at June 30, 2011 were as follows (in thousands):

Series	Interest rate	Final Maturity	Original Par	June 30, 2011 Bonds Outstanding, at Par
<u>Rental Housing Bonds</u>				
1995 Series C-2	5.85% to 5.95%	2015	\$ 38,210	\$ 3,490
1995 Series D	5.80% to 6.00%	2022	234,590	8,245
1997 Series A	5.45% to 5.875%	2028	4,750	3,655
1998 Series A	5.375%	2028	5,505	5,505
1998 Series B	6.60%	2019	4,180	2,290
1998 Series C	4.85% to 5.20%	2029	2,865	2,220
1999 Series A	4.75% to 5.10%	2024	4,275	2,980
1999 Series B	5.60% to 6.15%	2025	3,160	1,890
2000 Series A	5.65% to 6.15%	2030	9,290	5,220
2000 Series B	5.90%	2031	5,150	4,125
2001 Series A	4.50% to 5.35%	2033	4,800	4,115
2002 Series A	3.65% to 4.05%	2014	27,630	10,430
2003 Series A	4.55% to 4.95%	2045	12,770	11,875
2003 Series B	4.15% to 5.08%	2031	1,945	1,680
2003 Series C-1	4.35% to 5.20%	2034	2,095	1,875
2004 Series A	3.60% to 5.00%	2035	9,345	7,470
2004 Series B	4.00% to 4.85%	2035	3,215	2,920
2004 Series C	3.45% to 4.40%	2022	80,000	37,015
2005 Series A-1	4.25% to 4.85%	2035	1,725	1,590
2006 Series A-1	4.40% to 5.10%	2047	6,615	6,420
2006 Series B	4.89%	2037	5,020	4,755
2006 Series C-1	4.96%	2037	2,860	2,705
2007 Series A-1	4.65%	2038	3,775	3,605
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
2010 Series B	1.75%	2013	8,000	8,000
2011 Series A	0.5% to 5.45%	2041	8,890	8,890
			496,895	159,200
<u>Residential Housing Finance Bonds</u>				
2002 Series A	4.75% to 5.30%	2019	\$ 14,035	\$ 3,190
2002 Series B	5.00% to 5.65%	2033	59,650	11,160
2002 Series A-1	4.20% to 4.90%	2019	6,860	3,955
2002 Series B-1	4.30% to 5.35%	2033	25,760	11,130
2002 Series E	4.30% to 5.00%	2020	12,805	7,060
2002 Series F	4.45% to 5.40%	2032	52,195	19,040
2002 Series H	4.93%	2012	20,000	10,000
2003 Series A	3.25% to 4.30%	2034	40,000	13,200
2003 Series B	Variable	2033	25,000	25,000
2003 Series I	4.30% to 5.25%	2020	25,000	6,970
2003 Series J	Variable	2033	25,000	20,480
2004 Series A	3.20% to 4.25%	2018	22,480	18,465
2004 Series B	3.60% to 5.00%	2033	94,620	39,850

continued

MINNESOTA HOUSING FINANCE AGENCY

Notes to Financial Statements

Year ended June 30, 2011 (continued)

Bonds Payable,
Net
(continued)

Series	Interest rate	Final Maturity	Original Par	June 30, 2011 Bonds Outstanding, at Par
Residential Housing Finance Bonds (continued)				
2004 Series C	4.70%	2035	\$ 14,970	\$ 12,445
2004 Series E-1	4.10% to 4.60%	2016	5,110	3,360
2004 Series E-2	4.40% to 4.60%	2016	6,475	4,255
2004 Series F-1	4.40% to 4.50%	2012	4,600	220
2004 Series F-2	4.40% to 5.25%	2034	36,160	19,045
2004 Series G	Variable	2032	50,000	36,690
2005 Series A	3.75% to 4.125%	2018	14,575	7,575
2005 Series B	4.75% to 5.00%	2035	20,425	13,760
2005 Series C	Variable	2035	25,000	18,915
2005 Series G	4.25% to 4.30%	2018	8,950	7,875
2005 Series H	4.00% to 5.00%	2036	51,050	32,190
2005 Series I	Variable	2036	40,000	30,365
2005 Series J	3.625% to 4.00%	2015	11,890	10,880
2005 Series K	3.95% to 4.40%	2028	41,950	26,310
2005 Series L	4.75% to 5.00%	2036	48,165	33,895
2005 Series M	Variable	2036	60,000	44,765
2005 Series O	3.90% to 4.20%	2015	4,510	4,510
2005 Series P	4.15% to 5.00%	2036	65,490	47,935
2006 Series A	3.60% to 4.00%	2016	13,150	7,585
2006 Series B	4.60% to 5.00%	2037	43,515	33,020
2006 Series C	Variable	2037	28,335	24,075
2006 Series F	3.85% to 4.25%	2016	11,015	5,805
2006 Series G	4.85% to 5.50%	2037	58,985	51,155
2006 Series H	5.85%	2036	15,000	5,790
2006 Series I	4.20% to 5.75%	2038	95,000	73,590
2006 Series J	6.00% to 6.51%	2038	45,000	34,820
2006 Series L	3.60% to 3.95%	2016	6,740	4,765
2006 Series M	4.625% to 5.75%	2037	35,260	34,025
2006 Series N	5.27% to 5.76%	2037	18,000	11,965
2007 Series C	3.70% to 3.95%	2017	12,515	9,455
2007 Series D	4.60% to 5.50%	2038	62,485	53,795
2007 Series E	Variable	2038	25,000	19,035
2007 Series H	3.65% to 3.95%	2017	12,230	12,230
2007 Series I	4.00% to 5.50%	2038	100,270	83,365
2007 Series J	Variable	2038	37,500	29,260
2007 Series L	4.10% to 5.50%	2048	105,000	91,160
2007 Series M	6.345%	2038	70,000	61,135
2007 Series P	3.50% to 3.90%	2017	4,305	4,035
2007 Series Q	3.90% to 5.50%	2038	42,365	37,495
2007 Series R	4.51% to 4.76%	2013	2,840	1,415
2007 Series S	Variable	2038	18,975	18,975
2007 Series T	Variable	2048	37,160	31,425

continued

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2011 (continued)

Bonds Payable,
Net
(continued)

Series	Interest rate	Final Maturity	Original Par	June 30, 2011 Bonds Outstanding, at Par
Residential Housing Finance Bonds (continued)				
2008 Series A	3.00% to 4.65%	2023	\$ 25,090	\$ 19,705
2008 Series B	5.50% to 5.65%	2033	34,910	31,695
2008 Series C	Variable	2048	40,000	40,000
2009 Series A	2.35% to 5.20%	2023	26,795	22,085
2009 Series B	5.00% to 5.90%	2038	33,205	28,185
2009 Series C	Variable	2036	40,000	40,000
2009 Series D	1.25% to 4.00%	2020	19,830	17,490
2009 Series E	2.05% to 5.10%	2040	103,960	100,860
2009 Series F	Variable	2031	34,120	31,530
			2,191,280	1,615,415
Limited Obligation Notes				
Series 2011 B	0.15%	2011	53,000	53,000
Series 2011 B	0.21%	2011	212,870	212,870
			265,870	265,870
Single Family Mortgage Bonds				
1994 Series E	5.60% to 5.90%	2025	31,820	9,775
1996 Series A	6.375%	2028	34,480	1,960
1996 Series C	6.10%	2015	12,345	390
1996 Series D	6.00%	2017	23,580	440
1996 Series E	6.25%	2023	14,495	790
1996 Series F	6.30%	2028	18,275	990
1997 Series D	5.80% to 5.85%	2021	15,885	1,860
1997 Series E	5.90%	2029	23,495	1,590
1998 Series F-1	5.45%	2017	10,650	540
1998 Series G-1	5.60%	2022	6,150	815
1998 Series H-1	5.65%	2031	14,885	1,975
1998 Series F-2	5.70%	2017	11,385	1,360
1998 Series G-2	6.00%	2022	6,605	1,910
1998 Series H-2	6.05%	2031	15,965	4,640
1999 Series H	5.30% to 5.80%	2021	16,350	2,740
1999 Series I	6.05%	2031	34,700	3,285
1999 Series J	5.00%	2017	4,745	1,640
1999 Series K	4.50% to 5.35%	2033	44,515	13,150
2000 Series F	Variable	2031	20,000	5,360
2000 Series G	4.50% to 5.40%	2025	39,990	11,435
2000 Series H	5.50%	2023	32,475	7,345
2001 Series A	5.35% to 5.45%	2022	14,570	4,560
2001 Series B	5.00% to 5.675%	2030	34,855	5,195
2001 Series E	3.55% to 4.90%	2035	23,000	13,760
			505,215	97,505

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2011 (continued)

Bonds Payable,
Net
(continued)

Series	Interest rate	Final Maturity	Original Par	June 30, 2011 Bonds Outstanding, at Par
<u>Homeownership Finance Bonds</u>				
2009 Series A	Variable	2011	\$ 260,490	\$ 84,990
2009 Series A-1	3.01%	2041	108,000	108,000
2009 Series A-2	3.55%	2041	67,500	67,500
2010 Series A	0.45% to 4.25%	2028	72,000	72,000
2011 Series A	0.50% to 1.25%	2013	3,740	3,740
2011 Series B	1.25% to 4.50%	2031	63,760	63,760
			<u>575,490</u>	<u>399,990</u>
<u>Multifamily Housing Bonds</u>				
Series 2009	3.01%	2051	15,000	15,000
			<u>15,000</u>	<u>15,000</u>
Combined Totals			<u>\$4,049,750</u>	<u>\$2,552,980</u>

The final maturities of the Homeownership Finance Bonds, 2009 Series A are listed in the foregoing table as 2011, because the conditions for release of proceeds of these bonds under the Treasury Department's New Issue Bond Program had not been met as of June 30, 2011. If the conditions for release of proceeds are satisfied, the bonds will bear interest at a long-term rate and amortize over a term ending on July 1, 2041.

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, 2011, are as follows (in thousands):

Fiscal Year	<u>Rental Housing</u>		<u>Residential Housing Finance</u>	
	Principal	Interest	Principal	Interest
2012	\$ 12,015	\$ 7,218	\$ 297,705	\$ 59,780
2013	21,815	6,686	42,390	58,126
2014	12,725	6,056	34,390	56,676
2015	7,280	5,543	36,960	55,379
2016	7,405	5,215	37,370	53,968
2017-2021	34,590	20,755	201,440	247,877
2021-2026	18,635	14,066	254,955	207,629
2027-2031	17,590	9,251	346,365	153,369
2032-2036	12,980	5,310	391,075	87,288
2037-2041	9,425	2,599	217,645	18,384
2042-2046	4,210	662	13,085	1,247
2047-2051	530	25	7,905	185
2051-2056	-	-	-	-
Total	<u>\$159,200</u>	<u>\$83,386</u>	<u>\$1,881,285</u>	<u>\$999,908</u>

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2011 (continued)

Bonds Payable,
Net
(continued)

Fiscal Year	Single Family		Homeownership Finance	
	Principal	Interest	Principal	Interest
2012	\$ 3,255	\$ 5,029	\$ 4,270	\$ 8,564
2013	3,335	4,864	90,660	10,415
2014	3,660	4,683	5,765	10,355
2015	4,005	4,485	5,885	10,276
2016	3,930	4,271	6,040	10,170
2017-2021	24,180	17,787	33,445	48,279
2021-2026	24,750	11,081	41,765	41,615
2027-2031	23,350	4,882	53,810	31,615
2032-2036	7,040	695	69,270	20,815
2037-2041	-	-	84,060	8,343
2042-2046	-	-	5,020	82
2047-2051	-	-	-	-
2051-2056	-	-	-	-
Totals	<u>\$97,505</u>	<u>\$57,777</u>	<u>\$399,990</u>	<u>\$200,529</u>

Fiscal Year	Multifamily Housing		Combined Totals	
	Principal	Interest	Principal	Interest
2012	\$ -	\$ 451	\$ 317,245	\$ 81,042
2013	110	450	158,310	80,541
2014	230	445	56,770	78,215
2015	230	438	54,360	76,121
2016	230	431	54,975	74,055
2017-2021	1,200	2,048	294,855	336,746
2021-2026	1,200	1,867	341,305	276,258
2027-2031	1,640	1,663	442,755	200,780
2032-2036	1,800	1,396	482,165	115,504
2037-2041	2,310	1,093	313,440	30,419
2042-2046	2,670	724	24,985	2,715
2047-2051	3,200	282	11,635	492
2051-2056	180	1	180	1
	<u>\$15,000</u>	<u>\$11,289</u>	<u>\$2,552,980</u>	<u>\$1,352,889</u>

Principal due on limited obligation notes is reflected in the table above based on the maturity date of the notes. This presentation does not alter the expectation that these notes will be redeemed in whole or in part from proceeds of refunding bonds or notes issued on or before the maturity date. Limited obligation notes are secured by certificates of deposit which are included in Investment Securities in the statement of net assets.

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, 2011 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.

MINNESOTA HOUSING FINANCE AGENCY

Notes to Financial Statements

Year ended June 30, 2011 (continued)

Bonds Payable, Net (continued)

Single Family Bonds, 2000 Series F accrue interest at a variable rate that is recalculated each calendar month. The rate is the one-month LIBOR (London Interbank Offered Rate) plus 0.30% per annum provided that the rate may not exceed 11.00% per annum. Future interest due for this series, as displayed above in the annual debt service requirements table, assumes that the respective rates in effect on June 30, 2011 continue for the term of the bonds. Interest payments on this series of bonds will vary with the one-month LIBOR rate.

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 resolutions contain covenants that require the Agency to maintain certain reserves. The Agency believes that as of June 30, 2011, 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.

Call notices were issued on or before June 30, 2011 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, 2011. The fair values approximate the termination payments that would have been due had the swaps been terminated as of June 30, 2011. 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, 2011, 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, 2011 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 Residential Housing Finance Bonds 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, 2011, debt service requirements of the Residential Housing Finance outstanding variable rate debt and net swap payments, assuming interest rates remain the same for the term of the bonds, are as follows (in thousands). As interest rates vary, variable rate bond interest payments and net swap payments will vary.

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Interest Rate Swaps, Net</u>	<u>Total</u>
2012	\$ 11,515	\$ 688	\$14,813	\$ 27,016
2013	815	379	14,105	15,299
2014	1,125	377	13,350	14,852
2015	1,440	374	12,591	14,405
2016	4,195	371	11,768	16,334
2017-2021	35,775	1,753	48,255	85,783
2022-2026	70,775	1,524	34,656	106,955
2027-2031	106,540	1,158	23,959	131,657
2032-2036	118,830	671	14,316	133,817
2037-2041	44,825	199	3,388	48,412
2042-2045	9,110	81	1,052	10,243
2042-2045	5,570	13	164	5,747

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2011 (continued)

Interest Rate Swaps (continued)

Terms of Swaps

Terms of the swaps, the fair values, changes in fair values, and the credit ratings of the three counterparties thereto as of June 30, 2011, are contained in the three 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: UBS AG

Moody's Aa3 (negative outlook) / Standard & Poor's A+ (stable outlook)

Associated Bond Series	Notional Amount as of June 30, 2011	Effective Date	Swap Maturity Date	Fixed Rate Payable	Variable Rate Receivable	Fair Value (1) as of June 30, 2011	Increase (Decrease) in Fair Value for the Fiscal Year Ended June 30, 2011
RHFB 2003B	\$ 25,000	July 23, 2003	January 1, 2033	3.532%	65% of 1 month LIBOR* plus 0.23% per annum	\$ (1,001)	\$ (345)
RHFB 2003J	20,480	October 15, 2003	July 1, 2033	4.183%	65% of 1 month LIBOR* plus 0.23% per annum	(1,816)	(394)
RHFB 2005C	18,915	March 2, 2005	January 1, 2035	3.587%	64% of 1 month LIBOR* plus 0.28% per annum	(1,150)	(226)
RHFB 2006C	24,075	March 21, 2006	January 1, 2037	3.788%	64% of 1 month LIBOR* plus 0.29% per annum	(1,955)	(286)
RHFB 2007S	18,975	December 19, 2007	July 1, 2038	4.340%	100% of SIFMA** Index plus 0.06% per annum	(713)	(125)
RHFB 2007T (Taxable)	31,425	December 19, 2007	July 1, 2026	4.580%	100% of 1 month LIBOR*	(2,588)	(600)
Counterparty	\$ 138,870					\$ (9,223)	\$ (1,976)

Counterparty: Royal Bank of Canada

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

Associated Bond Series	Notional Amount as of June 30, 2011	Effective Date	Swap Maturity Date	Fixed Rate Payable	Variable Rate Receivable	Fair Value (1) as of June 30, 2011	Increase (Decrease) in Fair Value for the Fiscal Year Ended June 30, 2011
RHFB 2004G	\$ 36,690	July 22, 2004	January 1, 2032	4.165%	64% of 1 month LIBOR* plus 0.26% per annum	\$ (2,899)	\$ (725)
RHFB 2007E (Taxable)	19,035	March 7, 2007	July 1, 2038	5.738%	100% of 1 month LIBOR*	(1,868)	(445)
RHFB 2007J (Taxable)	29,260	May 17, 2007	July 1, 2038	5.665%	100% of 1 month LIBOR*	(2,825)	(653)
RHFB 2008C (Taxable)	40,000	August 7, 2008	July 1, 2048	4.120%	64% of 1 month LIBOR* plus 0.30% per annum	(3,543)	(879)
RHFB 2009C (Taxable)	40,000	February 12, 2009	July 1, 2039	3.070%	64% of 1 month LIBOR* plus 0.30% per annum	(4,679)	(879)
RHFB 2009F	31,530	December 1, 2009	September 12, 2017	2.365%	100% of weekly SIFMA** plus 0.80% per annum	(976)	85
Counterparty	\$196,515					\$ (16,790)	\$ (3,494)

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2011 (continued)

**Interest Rate
Swaps (continued)**

Counterparty: Citibank, N.A.

Moody's A1 (negative watch) / Standard & Poor's A+ (negative outlook)

Associated Bond Series	Notional Amount as of June 30, 2011	Effective Date	Swap Maturity Date	Fixed Rate Payable	Variable Rate Receivable	Fair Value (1) as of June 30, 2011	Increase (Decrease) in Fair Value for the Fiscal Year Ended June 30, 2011
RHFB 2005I	\$ 30,365	June 2, 2005	January 1, 2036	3.570%	64% of 1 month LIBOR* plus .28% per annum	\$ (2,045)	\$ (356)
RHFB 2005M	44,765	August 4, 2005	January 1, 2036	3.373%	64% of 1 month LIBOR* plus 0.29% per annum	(2,757)	(439)
Counterparty	<u>\$ 75,130</u>					<u>\$ (4,802)</u>	<u>\$ (795)</u>
Combined Totals	<u>\$410,515</u>					<u>\$ (30,815)</u>	<u>\$ (6,528)</u>

(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. Fair values exclude accrued interest.

* London Inter-Bank Offered Rate

** Securities Industry and Financial Markets Association Municipal Swap Index

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, 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, 2011, the Agency did not have a net credit risk exposure to any of its three counterparties because their respective combined swap positions had a negative net fair value, as set forth in the foregoing tables. Each of the swap agreements requires that, upon demand, a party post collateral to secure its obligation to make a termination payment to the extent the fair value exceeds a collateral threshold specified in the agreement. The collateral threshold for each counterparty and the Agency is \$50 million if the ratings on the unsubordinated, unsecured long-term indebtedness of the counterparty, in the case of the counterparty, or the hedged bonds, in the case of the Agency, are not less than "AA-" and "Aa3" from Standard & Poor's and Moody's, respectively, \$5 million if the ratings are not less than "A+" and "A1", \$3 million if the ratings are not less than "A" and "A2", and \$0, if either rating is lower. These bilateral requirements are established to mitigate potential credit risk exposure. As of June 30, 2011, 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.

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2011 (continued)

**Interest Rate
Swaps (continued)**

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, 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, 2011, the interest rate on the Agency's variable rate tax-exempt debt ranged from 0.08% to 0.09% per annum while the variable interest rate on the associated swaps ranged from 0.17% to 0.45% per annum. As of June 30, 2011, the interest rate on the Agency's variable rate taxable debt ranged from 0.19% to 0.24% per annum while the variable interest rate on the corresponding swaps was 0.19% 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.

**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, 2011, \$30.5 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, 2011, \$33.130 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.

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2011 (continued)

Accounts Payable and Other Liabilities

Accounts payable and other liabilities at June 30, 2011 consisted of the following (in thousands):

Funds	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	\$ —	\$3,342	\$ 2,139	\$ 5,481
Rental Housing	5,784	—	17	5,801
Residential Housing Finance	2,415	—	808	3,223
Single Family	434	—	28	462
Homeownership Finance	—	—	52	52
Multifamily Housing	—	—	—	—
State Appropriated	—	—	268	268
Federal Appropriated	—	—	1,775	1,775
Agency-wide Totals	<u>\$8,633</u>	<u>\$3,342</u>	<u>\$5,087</u>	<u>\$17,062</u>

The amount of arbitrage rebate payable and yield compliance liability that is not due within one year in Rental Housing is \$5.784 million, in Residential Housing Finance is \$1.724 million and in Single Family is \$0.434 million, for a total of \$7.942 million.

Interfund Balances

Interfund balances displayed as Interfund Payable (Receivable) at June 30, 2011 consisted of the following (in thousands):

Funds	Due from								Total
	General Reserve	Rental Housing	Residential Housing Finance	Single Family	Home-ownership Finance	Multifamily Housing	State Appropriated	Federal Appropriated	
General Reserve	\$ —	\$—	\$—	\$—	\$—	\$—	\$176	\$365	\$541
Rental Housing	—	—	—	—	1	—	—	—	1
Residential Housing Finance	1,420	—	—	—	—	—	—	—	1,420
Single Family	—	—	—	—	1	—	—	—	1
Homeownership Finance Bonds	—	—	—	—	—	—	—	—	0
Multifamily Housing Bonds	—	—	—	—	—	—	—	—	0
State Appropriated	—	—	73	64	—	—	—	—	137
Federal Appropriated	—	—	—	—	—	—	—	—	0
Agency-wide Totals	<u>\$1,420</u>	<u>\$ 0</u>	<u>\$73</u>	<u>\$64</u>	<u>\$ 2</u>	<u>\$ 0</u>	<u>\$176</u>	<u>\$365</u>	<u>\$2,100</u>

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.

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2011 (continued)

**Interfund
Transfers**

Interfund transfers recorded in Interfund Payable (Receivable) for the year ended June 30, 2011 consisted of the following (in thousands)

Funds	Transfer from								Total
	General Reserve	Rental Housing	Residential Housing Finance	Single Family	Home-ownership Finance	Multifamily Housing	State Appropriated	Federal Appropriated	
General Reserve	\$—	\$1,555	\$14,829	\$1,069	\$568	\$32	\$1,427	\$1,547	\$21,027
Rental Housing	—	—	—	—	—	—	—	—	\$0
Residential Housing Finance	—	—	—	—	—	—	1,859	—	1,859
Single Family	—	—	482	—	—	—	—	—	482
Homeownership Finance	—	—	—	—	—	—	—	—	\$0
Multifamily Housing	—	—	—	—	—	—	—	—	\$0
State Appropriated	—	—	17	19	—	—	—	—	36
Federal Appropriated	—	250	—	—	—	—	—	—	250
Agency-wide Totals	<u>\$ 0</u>	<u>\$1,805</u>	<u>\$15,328</u>	<u>\$1,088</u>	<u>\$568</u>	<u>\$32</u>	<u>\$3,286</u>	<u>\$1,547</u>	<u>\$23,654</u>

Interfund transfers recorded in Interfund Payable (Receivable) were made to move 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 \$1.856 million of entry cost assistance loans transferred from Residential Housing Finance to State Appropriated; 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, 2011, consisted of the following (in thousands):

Funds	Transfer from								Total
	General Reserve	Rental Housing	Residential Housing Finance	Single Family	Home-ownership Finance	Multifamily Housing	State Appropriated	Federal Appropriated	
General Reserve	\$ —	\$—	\$ —	\$—	\$—	\$—	\$—	\$—	\$ 0
Rental Housing	—	—	641	—	—	—	—	—	641
Residential Housing Finance	10,029	—	—	—	—	—	—	—	10,029
Single Family	—	—	—	—	—	—	—	—	0
Homeownership Finance Bonds	—	—	13,066	—	—	—	—	—	13,066
Multifamily Housing Bonds	—	—	549	—	—	—	—	—	549
State Appropriated	—	—	—	—	—	—	—	—	\$0
Federal Appropriated	—	—	—	—	—	—	—	—	\$0
Agency-wide Totals	<u>\$10,029</u>	<u>\$0</u>	<u>\$14,256</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$24,285</u>

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.

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2011 (continued)

Net Assets

Restricted by Bond Resolution

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

Restricted by Covenant

In accordance with provisions of the respective bond resolutions, the Agency may transfer 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 \$469.496 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 \$683.233 million as of June 30, 2010 and are \$683.638 million as of June 30, 2011.

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, 2011 (in thousands):

Net Assets — Restricted By Covenant	Certain Balances Maintained According to Agency's Board Guidelines	Unrealized Appreciation (Depreciation) in Fair Market Value of Investments	Mitigate Pool 1 Unrealized Depreciation in Fair Market Value	Total Net Assets Restricted by Covenant
Housing Endowment Fund (Pool 1), General Reserve				
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	\$ 20,484	\$ —	\$—	\$ 20,484
Unrealized depreciation in fair market value of investments, excluding multifamily development escrow investments	—	(70)	70	—
Subtotal, Housing Endowment Fund (Pool 1), General Reserve	<u>\$ 20,484</u>	<u>\$(70)</u>	<u>\$70</u>	<u>\$ 20,484</u>

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2011 (continued)

Net Assets
(continued)

<u>Net Assets — Restricted By Covenant</u>	<u>Certain Balances Maintained According to Agency's Board Guidelines</u>	<u>Unrealized Appreciation (Depreciation) in Fair Market Value of Investments</u>	<u>Mitigate Pool 1 Unrealized Depreciation in Fair Market Value</u>	<u>Total Net Assets Restricted by Covenant</u>
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 (\$13,900 for fiscal year 2011). Pool 2 is invested in investment-quality housing loans, as defined by the Agency, or investment-grade securities.	379,101	—	—	379,101
Unrealized depreciation in fair market value of investments	—	1,409	—	1,409
Subtotal, Housing Investment Fund (Pool 2), Residential Housing Finance	379,101	1,409	—	380,510
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.	67,993	—	—	67,993
Unrealized appreciation in fair market value of investments	—	509	—	509
Subtotal, Housing Affordability Fund (Pool 3), Residential Housing Finance	67,993	509	—	68,502
Agency-wide Total	<u>\$467,578</u>	<u>\$1,848</u>	<u>\$70</u>	<u>\$469,496</u>

Restricted by Law

Undisbursed, recognized federal and state appropriations are classified as Net Assets Restricted by Law. The \$10.165 million of net assets restricted by law in the Federal Appropriated fund as of June 30, 2011 are restricted by federal requirements that control the use of the funds. The \$101.301 million of net assets restricted by law in the State Appropriated fund as of June 30, 2011 are restricted by the state laws appropriating such funds.

MINNESOTA HOUSING FINANCE AGENCY

Notes to Financial Statements

Year ended June 30, 2011 (continued)

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, 2011 was \$775 thousand.

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

Schedule of Funding Progress (dollars in thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Actual Covered Payroll (Previous FY)	UAAL as a % of Covered Payroll
07/01/10	\$8,960,391	\$10,264,071	\$1,303,680	87.30%	\$2,327,398	56.01%
07/01/09	9,030,401	10,512,760	1,482,359	85.90%	2,329,499	63.63%
07/01/08	9,013,456	9,994,602	981,146	90.18%	2,256,528	43.48%

Schedule of Employer Contributions (dollars in thousands)

Year Ended June 30	Actuarially Required Contribution Rate	Actual Covered Payroll	Actual Member Contributions	Annual Required Employer Contributions	Actual Employer Contributions*	Percent Contributed
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%
2008	11.76%	2,256,528	99,280	166,088	96,746	58.25%

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

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2011 (continued)

Defined Benefit Pension Plan (continued)

The information presented was as of July 1, 2010, which is the latest actuarial information available.

The above summarizes the defined benefit pension plan. Please refer to the July 1, 2010, 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.

Other Postemployment Benefits

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 other postemployment benefits (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 \$151 thousand for fiscal year 2010. The NOO was recorded as an expense and a corresponding liability by the Agency. The Agency recorded an additional \$50 thousand for fiscal year 2011 increasing the NOO to \$201 thousand.

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, 2008, 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.

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
07/01/06	\$0	\$564,809	\$564,809	0.0%	\$1,961,643	28.79%
07/01/08	0	664,452	664,452	0.0	1,891,300	35.13
06/30/10	0	693,297	693,297	0.0	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
06/30/09	\$65,480	\$24,055	36.74%	\$ 73,127
06/30/10	67,663	28,343	41.89	112,447
06/30/11	66,526	34,208	51.42	144,765
06/30/12	70,195	46,519	66.27	168,441

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2011 (continued)

**Other
Postemployment
Benefits
(continued)**

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

Fiscal Year Ended	(a) Annual Required Contribution (ARC)	(b) Employer Contribution	(c) Interests on NOO	(d) ARC Adjustment with Interest (h) / (e) * 1.0475	(e) Amortization Factor	(f) Annual OPEB Cost (a) + (c) - (d)	(g) Change in NOO (f) - (b)	(h) NOO Balance LY + (g)
06/30/09	65,200	24,055	1,506	1,226	27.0839*	65,480	41,425	73,127
06/30/10	67,018	28,343	3,474	2,828	27.0839*	67,663	39,320	112,447
06/30/11	65,534	34,208	5,341	4,349	27.0839*	66,526	32,318	144,765
06/30/12	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	\$ 4,781,597
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, 2011, 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	9,285
Multifamily Finance	15,000
Residential Housing Finance	113,648
Single Family	—
Homeownership Finance	119,344
State Appropriated	66,864
Federal Appropriated	29,774
Agency-wide Totals	<u>\$353,915</u>

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2011 (continued)

**Commitments
(continued)**

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 May 2012 and for parking through February 2012, totalling \$1.133 million. Combined office facilities and parking lease expense for fiscal year 2011 was \$1.204 million.

On June 30, 2011 the Agency had in place a \$32.2 million revolving line of credit with the Federal Home Loan Bank of Des Moines collateralized with \$36.1 million of mortgage-backed securities, all of which reside in Pool 2. The advances taken during fiscal year 2011 were used to purchase and warehouse mortgage-backed securities in Pool 2. The line of credit activity for the year ended June 30, 2011, is summarized as follows (in thousands):

<u>Beginning Balance</u>	<u>Draws</u>	<u>Repayments</u>	<u>Ending Balance</u>
\$56,000	\$711,000	\$767,000	\$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, 2011 the following bonds (in thousands):

<u>Program</u>	<u>Redemption Date</u>	<u>Par</u>
Residential Housing Finance	July 1, 2011	\$75,465,000
Single Family	July 1, 2011	8,885,000
Homeownership Finance	July 1, 2011	245,000
Rental Housing	July 7, 2011	1,930,000
Rental Housing	July 18, 2011	260,000
Rental Housing	August 1, 2011	1,330,000

On May 26, 2011 the Board of the Agency adopted a series resolution authorizing the issuance of \$8.310 million bonds for the purpose of providing funds for certain of the Agency's homeownership programs. The Homeownership Finance Bonds, 2011 Series C (Mortgage-Backed Securities Program) were delivered on July 20, 2011.

On May 26, 2011 the Board of the Agency adopted a series resolution authorizing the issuance of \$33.690 million bonds for the purpose of providing funds for certain of the Agency's homeownership programs. The Homeownership Finance Bonds, 2011 Series D (Mortgage-Backed Securities Program) were delivered on July 20, 2011.

Subsequent to June 30, 2011 the U.S. Sovereign rating was downgraded by Standard & Poor's to "AA+" and placed on negative outlook. Moody's also assigned the U.S. Sovereign "Aaa" rating a negative outlook but has not downgraded the rating as of the date of this report.

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MINNESOTA HOUSING FINANCE AGENCY
Supplementary Information (Unaudited)
General Reserve and Bond Funds
Five Year Financial Summary (in thousands)
Fiscal Years 2007 – 2011

		<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Loan Receivable, net (as of June 30)	Multifamily programs	\$ 348,974	\$ 346,509	\$ 348,563	\$ 334,565	\$329,452
	Homeownership programs	1,588,871	1,899,313	1,934,766	1,780,911	1,589,329
	Home Improvement programs	121,977	115,452	108,893	116,713	111,670
	Total	<u>\$2,059,822</u>	<u>\$2,361,274</u>	<u>\$2,392,222</u>	<u>\$2,232,189</u>	<u>\$2,030,451</u>
Mortgage-backed securities net, at par (as of June 30)	Program mortgage-backed securities	\$ -	\$ -	\$ -	\$ 32,321	\$ 49,676
	Warehoused mortgaged-backed securities	-	-	-	107,330	49,688
	Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 139,651</u>	<u>\$ 99,364</u>
Bonds Payable, net (as of June 30)	Multifamily programs	\$ 191,691	\$ 178,431	\$ 162,288	\$ 165,085	\$ 72,692
	Homeownership programs	2,187,297	2,217,945	2,296,445	2,524,422	2,372,722
	Home Improvement programs	20,000	15,000	15,000	15,000	10,000
	Total	<u>\$2,398,988</u>	<u>\$2,411,376</u>	<u>\$2,473,733</u>	<u>\$2,704,507</u>	<u>\$2,555,414</u>
Mortgage-backed securities purchased, at par and loans purchased or originated during fiscal year	Multifamily programs	\$ 19,306	\$ 30,169	\$ 41,897	\$ 20,874	\$ 33,956
	Homeownership programs	424,436	436,263	207,050	55,891	31,372
	Program and warehoused mortgage-backed securities	-	-	-	140,992	288,580
	Home Improvement programs	29,456	19,883	17,977	32,299	22,780
	Total	<u>\$ 473,198</u>	<u>\$ 486,315</u>	<u>\$ 266,924</u>	<u>\$ 250,056</u>	<u>\$ 376,688</u>
Net Assets (as of June 30)	Total Net Assets*	\$ 750,990	\$ 662,124	\$ 68,242	\$ 683,233	\$ 683,638
	Percent of total assets*	22.8%	19.9%	20.2%	19.1%	19.9%
Revenue over Expenses	Revenues over expenses*	\$ 31,103	\$ 35,352	\$ 6,118	\$ 14,991	\$ 14,305

Notes:

*Excludes Pool 3 except for 2007

MINNESOTA HOUSING FINANCE AGENCY
Supplementary Information (Unaudited)
Statement of Net Assets (in thousands)
General Reserve and Bond Funds
As of June 30, 2011 (with comparative totals as of June 30, 2010)

		Bond Funds			
		Residential			
		Housing			
		Finance			
		General	Rental	Excluding	Single
		Reserve	Housing	Pool 3	Family
Assets	Cash and cash equivalents	\$ 57,539	\$ 45,721	\$ 219,159	\$ 38,088
	Investments- program mortgage-backed securities	-	-	33,002	-
	Investment securities- other	45,318	40,757	400,400	11,537
	Loans receivable, net	-	171,839	1,715,565	117,871
	Interest receivable on loans	-	944	12,195	860
	Interest receivable on investments	257	694	704	108
	Deferred loss on interest rate swap agreements	-	-	30,815	-
	FHA/VA insurance claims, net	-	-	6,747	1,014
	Real estate owned, net	-	-	23,804	800
	Unamortized bond issuance costs	-	1,752	8,564	631
	Capital assets, net	1,445	-	-	-
	Other assets	1,320	5	162	721
	Total assets	<u>105,879</u>	<u>261,712</u>	<u>2,451,117</u>	<u>171,630</u>
Liabilities	Bonds payable, net	\$ -	\$157,692	\$1,883,409	\$ 97,505
	Interest payable	-	3,063	37,701	2,525
	Interest rate swap agreements	-	-	30,815	-
	Deferred revenue- service release fees	-	-	3,634	-
	Accounts payable and other liabilities	5,481	5,801	3,126	462
	Interfund payable (receivable)	879	(1)	12,659	63
	Funds held for others	77,590	-	616	-
	Total liabilities	<u>83,950</u>	<u>166,555</u>	<u>1,971,960</u>	<u>100,555</u>
	Commitments and contingencies				
Net Assets	Restricted by bond resolution	-	95,157	98,647	71,075
	Restricted by covenant	20,484	-	380,510	-
	Restricted by law	-	-	-	-
	Invested in capital assets	1,445	-	-	-
	Total net assets	<u>21,929</u>	<u>95,157</u>	<u>479,157</u>	<u>71,075</u>
	Total liabilities and net assets	<u>\$105,879</u>	<u>\$261,712</u>	<u>\$2,451,117</u>	<u>\$171,630</u>

Bond Funds

Homeownership Finance	Multifamily Housing	General Reserve & Bond Funds Excluding Pool 3 Total as of June 30, 2011	General Reserve & Bond Funds Excluding Pool 3 Total as of June 30, 2010	Residential Housing Finance Pool 3	General Reserve & Bond Funds Total as of June 30, 2011	General Reserve & Bond Funds Total as of June 30, 2010
\$93,735	\$15,523	\$ 469,765	\$ 610,246	\$ 3,922	\$ 473,687	\$ 614,853
323,225	-	356,227	33,686	-	356,227	33,686
486	478	498,976	608,474	24,765	523,741	653,957
-	(382)	2,004,893	2,208,963	25,558	2,030,451	2,232,189
-	54	14,053	16,195	76	14,129	16,273
1,197	4	2,964	2,067	272	3,236	2,228
-	-	30,815	37,077	-	30,815	37,077
-	-	7,761	11,407	-	7,761	11,407
-	-	24,604	24,026	-	24,604	24,026
2,195	165	13,307	12,927	-	13,307	12,927
-	-	1,445	1,631	-	1,445	1,631
12	-	2,220	2,249	-	2,220	2,252
<u>420,850</u>	<u>15,842</u>	<u>3,427,030</u>	<u>3,568,948</u>	<u>54,593</u>	<u>3,481,623</u>	<u>3,642,506</u>
\$401,808	\$15,000	\$2,555,414	\$2,704,507	\$ -	\$2,555,414	\$2,704,507
3,472	38	46,799	48,211	-	46,799	48,211
-	-	30,815	37,077	-	30,815	37,077
-	-	3,634	1,298	-	3,634	1,298
52	-	14,922	14,970	97	15,019	15,045
2	-	13,602	(649)	(14,006)	(404)	(661)
-	-	78,206	80,301	-	78,206	80,301
<u>405,334</u>	<u>15,038</u>	<u>2,743,392</u>	<u>2,885,715</u>	<u>(13,909)</u>	<u>2,729,483</u>	<u>2,885,778</u>
15,516	804	281,199	278,195	-	281,199	278,195
-	-	400,994	403,407	68,502	469,496	476,902
-	-	-	-	-	-	-
-	-	1,445	1,631	-	1,445	1,631
<u>15,516</u>	<u>804</u>	<u>683,638</u>	<u>683,233</u>	<u>68,502</u>	<u>752,140</u>	<u>756,728</u>
<u>\$420,850</u>	<u>\$15,842</u>	<u>\$3,427,030</u>	<u>\$3,568,948</u>	<u>\$ 54,593</u>	<u>\$3,481,623</u>	<u>\$3,642,506</u>

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, 2011 (with comparative totals as of June 30, 2010)

		Bond Funds			
				Residential Housing Finance Excluding Pool 3	Single Family
		General Reserve	Rental Housing		
Revenues	Interest earned on loans	\$ -	\$10,055	\$104,968	\$ 7,787
	Interest earned on investments-program mortgage-backed securities	-	-	1,321	-
	Interest earned on investments- other	292	2,045	11,962	2,349
	Administrative reimbursement	20,733	-	-	-
	Fees earned and other income	10,289	616	599	-
	Unrealized gains (losses) on Investments	(95)	(859)	1,606	(565)
	Total revenues	<u>31,219</u>	<u>11,857</u>	<u>120,456</u>	<u>9,571</u>
Expenses	Interest	-	7,736	79,411	5,539
	Loan administration and trustee fees	-	141	5,529	405
	Administrative reimbursement	-	1,555	13,794	1,069
	Salaries and benefits	17,716	-	-	-
	Other general operating	5,714	-	2	-
	Reduction in carrying value of certain low interest rate deferred loans	-	964	31	-
	Provision for loan losses	-	138	20,928	337
	Total expenses	<u>23,430</u>	<u>10,534</u>	<u>119,695</u>	<u>7,350</u>
	Revenues over (under) expenses	7,789	1,323	761	2,221
Other changes	Non-operating transfer of assets between funds	(10,029)	641	(18,127)	-
	Change in net assets	(2,240)	1,964	(17,366)	2,221
Net Assets	Total net assets, beginning of year	<u>24,169</u>	<u>93,193</u>	<u>496,523</u>	<u>68,854</u>
	Total net assets, end of year	<u>\$21,929</u>	<u>\$95,157</u>	<u>\$479,157</u>	<u>\$71,075</u>

Bond Funds

Homeownership Finance	Multifamily Housing	General Reserve & Bond Funds Excluding Pool 3 Total For The Year Ended June 30, 2011	General Reserve & Bond Funds Excluding Pool 3 Total For The Year Ended June 30, 2010	Residential Housing Finance Pool 3	General Reserve & Bond Funds Total for the Year Ended June 30, 2011	General Reserve & Bond Funds Total for the Year Ended June 30, 2010
\$ -	\$354	\$123,164	\$136,622	\$ 378	\$123,542	\$136,945
6,493	-	7,814	702	-	7,814	702
274	17	16,939	14,673	1,167	18,106	15,636
-	-	20,733	21,658	-	20,733	21,658
-	3	11,507	9,803	22	11,529	9,941
224	3	314	8,068	(1,217)	(903)	9,048
6,991	377	180,471	191,526	350	180,821	193,930
4,304	199	97,189	101,516	-	97,189	101,516
55	(1)	6,129	6,646	10	6,139	6,653
568	32	17,018	16,653	1,035	18,053	17,679
-	-	17,716	17,815	-	17,716	17,815
-	-	5,716	8,847	3,782	9,498	9,445
-	-	-	-	-	-	-
-	-	995	748	13,392	14,387	9,403
-	-	21,403	24,310	1,024	22,427	25,530
4,927	230	166,166	176,535	19,243	185,409	188,041
2,064	147	14,305	14,991	(18,893)	(4,588)	5,889
13,066	549	(13,900)	-	13,900	-	-
15,130	696	405	14,991	(4,993)	(4,588)	5,889
386	108	683,233	668,242	73,495	756,728	750,839
\$15,516	\$804	\$683,638	\$683,233	\$68,502	\$752,140	\$756,728

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 the year ended June 30, 2010)

		<u>Bond Funds</u>			
		<u>General Reserve</u>	<u>Rental Housing</u>	<u>Residential Housing Finance Excluding Pool 3</u>	<u>Single Family</u>
Cash flows from operating activities	Principal repayments on loans and program mortgage-backed securities	\$ -	\$21,046	\$ 153,719	\$ 14,328
	Investment in loans and program mortgage-backed securities	-	(14,440)	(53,636)	(109)
	Interest received on loans and program mortgage-backed securities	-	10,997	101,539	7,332
	Other operating	-	-	(2)	-
	Fees and other income received	10,231	616	4,234	-
	Salaries, benefits and vendor payments	(21,918)	(145)	(7,134)	(414)
	Administrative reimbursement from funds	21,026	(1,555)	(13,794)	(1,069)
	Deposits into funds held for others	31,942	-	-	-
	Disbursements made from funds held for others	(35,135)	-	-	-
	Interfund transfers and other assets	(1,155)	(1)	94	(19)
	Net cash provided (used) by operating activities	<u>4,991</u>	<u>16,518</u>	<u>185,020</u>	<u>20,049</u>
Cash flows from noncapital financing activities	Proceeds from sale of bonds and notes	-	23,125	1,939,445	-
	Principal repayment on bonds and notes	-	(15,880)	(2,217,165)	(18,900)
	Interest paid on bonds and notes	-	(7,106)	(82,654)	(5,768)
	Financing costs paid related to bonds issued	-	(430)	(839)	-
	Interest paid/received between funds	-	-	(482)	482
	Agency contribution to program funds	-	641	(3,957)	-
	Transfer of cash between funds	<u>(11,057)</u>	<u>-</u>	<u>11,057</u>	<u>-</u>
Net cash provided (used) by noncapital financing activities	<u>(11,057)</u>	<u>350</u>	<u>(354,595)</u>	<u>(24,186)</u>	
Cash flows from investing activities	Investment in real estate owned	-	-	(4,387)	(677)
	Interest received on investments	1,524	2,164	10,653	2,134
	Proceeds from sale of mortgage insurance claims/real estate owned	-	-	71,074	5,655
	Proceeds from maturity, sale or transfer of investment securities	25,000	28,135	1,720,323	6,872
	Purchase of investment securities	(15,053)	(37,703)	(1,613,499)	(13,393)
	Purchase of loans between funds	-	-	-	-
	Net cash provided (used) by investing activities	<u>11,471</u>	<u>(7,404)</u>	<u>184,164</u>	<u>591</u>
	Net increase (decrease) in cash and cash equivalents	5,405	9,464	14,589	(3,546)
Cash and cash equivalents	Beginning of year	<u>52,134</u>	<u>36,257</u>	<u>204,570</u>	<u>41,634</u>
	End of year	<u>\$57,539</u>	<u>\$45,721</u>	<u>\$ 219,159</u>	<u>\$38,088</u>

Bond Funds		General Reserve & Bond Funds Excluding Pool 3 Total For The Year Ended June 30, 2011	Residential Housing Finance Pool 3	General Reserve & Bond Funds Year Ended June 30, 2011	General Reserve & Bond Funds Year Ended June 30, 2010
Homeownership Finance	Multifamily Housing				
\$ 3,175	\$ -	\$ 192,268	\$ 1,679	\$ 193,947	\$ 165,140
(316,300)	382	(384,103)	(20,407)	(404,510)	(141,854)
6,896	300	127,064	354	127,418	130,209
-	-	(2)	(3,684)	(3,686)	(3,038)
-	3	15,084	22	15,106	11,200
(75)	(3)	(29,689)	(86)	(29,775)	(29,682)
(568)	(32)	4,008	(1,035)	2,973	3,413
-	-	31,942	-	31,942	29,480
-	-	(35,135)	-	(35,135)	(31,551)
-	-	(1,081)	59	(1,022)	(1,275)
<u>(306,872)</u>	<u>650</u>	<u>(79,644)</u>	<u>(23,098)</u>	<u>(102,742)</u>	<u>132,042</u>
141,613	-	2,104,183	-	2,104,183	1,440,910
-	-	(2,251,945)	-	(2,251,945)	(1,208,085)
(959)	(167)	(96,654)	-	(96,654)	(100,549)
(2,053)	(60)	(3,382)	-	(3,382)	(2,650)
-	-	-	-	-	-
2,767	549	-	-	-	-
-	-	-	-	-	-
<u>141,368</u>	<u>322</u>	<u>(247,798)</u>	<u>-</u>	<u>(247,798)</u>	<u>129,626</u>
-	-	(5,064)	-	(5,064)	(3,557)
(923)	13	15,565	1,180	16,745	14,429
-	-	76,729	-	76,729	64,797
-	-	1,780,330	51,776	1,832,106	1,315,711
(476)	(475)	(1,680,599)	(32,399)	(1,712,998)	(1,408,702)
-	-	-	1,856	1,856	2,096
<u>(1,399)</u>	<u>(462)</u>	<u>186,961</u>	<u>22,413</u>	<u>209,374</u>	<u>(15,226)</u>
(166,903)	510	(140,481)	(685)	(141,166)	246,442
<u>260,638</u>	<u>15,013</u>	<u>610,246</u>	<u>4,607</u>	<u>614,853</u>	<u>368,411</u>
<u>\$ 93,735</u>	<u>\$15,523</u>	<u>\$ 469,765</u>	<u>\$ 3,922</u>	<u>\$ 473,687</u>	<u>\$ 614,853</u>

(Continued)

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

		<u>Bond Funds</u>			
		Residential Housing Finance			
		<u>General Reserve</u>	<u>Rental Housing</u>	<u>Excluding Pool 3</u>	<u>Single Family</u>
Reconciliation of revenue over (under) expenses to net cash provided (used) by operating activities	Revenues over (under) expenses	\$7,789	\$1 ,323	\$ 761	\$ 2,221
	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	-	(62)	1,274	(175)
	Depreciation	1,540	-	-	-
	Realized losses (gains) on sale of securities, net	(5)	77	168	(271)
	Unrealized losses (gains) on securities, net	95	859	(1,606)	565
	Provision for loan losses	-	138	20,928	337
	Reduction in carrying value of certain low interest rate and/or deferred loans	-	964	31	-
	Capitalized interest on loans and real estate owned	-	(105)	(7,965)	(506)
	Interest earned on investments	(287)	(2,251)	(11,222)	(2,164)
	Interest expense on bonds and notes	-	7,736	79,411	5,539
	Changes in assets and liabilities:				
	Decrease (increase) in loans receivable and program mortgage-backed securities, excluding loans transferred between funds	-	6,606	100,083	14,219
	Decrease (increase) in interest receivable on loans	-	29	1,941	226
	Increase (decrease) in arbitrage rebate liability	-	1,209	(908)	86
	Increase (decrease) in accounts payable	(24)	(2)	2,075	(6)
	Increase (decrease) in interfund payable, affecting operating activities only	285	(1)	(73)	(19)
	Increase (decrease) in funds held for others	(3,193)	-	-	-
	Other	(1,209)	(2)	122	(3)
	Total	<u>(2,798)</u>	<u>15,195</u>	<u>184,259</u>	<u>17,828</u>
	Net cash provided (used) by operating activities	<u>\$4,991</u>	<u>\$16,518</u>	<u>\$185,020</u>	<u>\$20,049</u>

<u>Bond Funds</u>		General Reserve & Bond Funds Excluding Pool 3 Total For The Year Ended June 30, 2011	Residential Housing Finance Pool 3	General Reserve & Bond Funds Year Ended June 30, 2011	General Reserve & Bond Funds Year Ended June 30, 2010
Homeownership Finance	Multifamily Housing				
<u>\$ 2,064</u>	<u>\$147</u>	<u>\$ 14,305</u>	<u>\$(18,893)</u>	<u>\$ (4,588)</u>	<u>\$ 5,889</u>
403	-	1,440	(26)	1,414	690
-	-	1,540	-	1,540	2,590
-	-	(31)	15	(16)	469
(224)	(3)	(314)	1,217	903	(9,048)
-	-	21,403	1,024	22,427	25,530
-	-	995	13,392	14,387	9,404
-	-	(8,576)	-	(8,576)	(6,724)
(274)	(17)	(16,215)	(1,182)	(17,397)	(16,115)
4,304	199	97,189	-	97,189	101,515
(313,125)	382	(191,835)	(18,728)	(210,563)	23,286
-	(54)	2,142	2	2,144	(1,038)
-	-	387	-	387	126
(20)	(4)	2,019	22	2,041	(96)
-	-	192	56	248	(753)
-	-	(3,193)	-	(3,193)	(2,071)
-	-	(1,092)	3	(1,089)	(1,612)
<u>(308,936)</u>	<u>503</u>	<u>(93,949)</u>	<u>(4,205)</u>	<u>(98,154)</u>	<u>126,153</u>
<u><u>\$(306,872)</u></u>	<u><u>\$650</u></u>	<u><u>\$ (79,644)</u></u>	<u><u>\$(23,098)</u></u>	<u><u>\$(102,742)</u></u>	<u><u>\$132,042</u></u>

Other Information

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APPENDIX B

**CERTAIN FINANCIAL STATEMENTS OF THE AGENCY
(EXCLUDING STATE APPROPRIATED AND FEDERAL APPROPRIATED FUNDS)**

AS OF DECEMBER 31, 2011

AND FOR THE SIX MONTHS THEN ENDED (UNAUDITED)

AS PREPARED BY THE AGENCY'S ACCOUNTING DEPARTMENT

DISCLAIMER

The following information with respect to the General Reserve, Homeownership Finance, Multifamily Housing, Rental Housing, Residential Housing Finance ("RHFB") excluding Pool 3, Single Family, and RHFB Pool 3 (the "Funds") as of December 31, 2011 and for the six-month period then ended was prepared by the Agency, and, in the opinion of the Agency, includes all accounting adjustments necessary for a fair statement of the financial position and results of operations of these Funds as of December 31, 2011 and for the six-month period then ended, subject to year-end adjustments.

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

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

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

General Reserve & Bond Funds
Statement of Net Assets
as of
December 31, 2011
(unaudited)
(with comparative totals as of December 31, 2010)
(in thousands)

	Bond Funds							Fiscal 2012 General Reserve and Bond Funds Total As Of December 31, 2011	Fiscal 2011 General Reserve and Bond Funds Total As Of December 31, 2010	
	General Reserve	Rental Housing	RHFB Excluding Pool 3	Single Family	Homeownership Finance Bonds	Multifamily Housing Bonds	General Reserve and Bond Funds Excluding Pool 3			RHFB Pool 3
Assets										
Cash and cash equivalents	\$ 93,748	\$ 43,066	\$ 203,330	\$ 36,835	\$ 76,273	\$ 5,592	\$ 458,844	\$ 4,283	\$ 463,127	\$ 555,001
Investments-program mortgage-backed securities	-	-	33,416	-	524,283	-	557,699	-	557,699	223,743
Investment securities-other	5,235	41,304	131,326	11,490	500	476	190,331	33,498	223,829	623,349
Loans receivable, net	-	168,892	1,625,121	109,500	-	9,565	1,913,078	28,624	1,941,702	2,117,840
Interest receivable on loans	-	911	11,933	772	-	55	13,671	70	13,741	15,687
Interest receivable on investments	45	672	585	109	1,792	6	3,209	282	3,491	2,790
Deferred loss on interest rate swap agreements	-	-	39,798	-	-	-	39,798	-	39,798	30,963
FHA/VA insurance claims	-	-	7,713	2,117	-	-	9,830	-	9,830	9,577
Real estate owned	-	-	19,769	752	-	-	20,521	-	20,521	23,253
Unamortized bond issuance costs	-	1,633	7,933	562	3,775	163	14,066	-	14,066	13,199
Capital assets, net	728	-	-	-	-	-	728	-	728	935
Other assets	1,019	3	365	2	2	-	1,391	1	1,392	1,943
Total assets	\$100,775	\$ 256,481	\$ 2,081,289	\$ 162,139	\$ 606,625	\$ 15,857	\$ 3,223,166	\$ 66,758	\$ 3,289,924	\$ 3,618,280
Liabilities										
Bonds payable, net	\$ -	\$ 148,315	\$ 1,522,108	\$ 86,890	\$ 551,729	\$ 15,000	\$ 2,324,042	\$ -	\$ 2,324,042	\$ 2,689,083
Interest payable	-	2,877	35,319	2,297	6,973	38	47,504	-	47,504	46,131
Interest rate swap agreements	-	-	39,798	-	-	-	39,798	-	39,798	30,963
Deferred revenue-service release fees	-	-	4,604	-	-	-	4,604	-	4,604	2,554
Accounts payable and other liabilities	4,596	5,887	1,430	742	50	-	12,705	5	12,710	13,607
Interfund payable (receivable)	1,554	(175)	(2,816)	52	329	-	(1,056)	(4)	(1,060)	4,421
Funds held for others	74,363	-	-	-	-	-	74,363	-	74,363	81,023
Total liabilities	80,513	156,904	1,600,443	89,981	559,081	15,038	2,501,960	1	2,501,961	2,867,782
Commitments and contingencies										
Net Assets										
Restricted by bond resolution	-	99,577	85,480	72,158	47,544	819	305,578	-	305,578	283,680
Restricted by covenant	19,534	-	395,366	-	-	-	414,900	66,757	481,657	465,883
Invested in capital assets	728	-	-	-	-	-	728	-	728	935
Total net assets	20,262	99,577	480,846	72,158	47,544	819	721,206	66,757	787,963	750,498
Total liabilities and net assets	\$100,775	\$ 256,481	\$ 2,081,289	\$ 162,139	\$ 606,625	\$ 15,857	\$ 3,223,166	\$ 66,758	\$ 3,289,924	\$ 3,618,280

General Reserve & Bond Funds
Statement of Revenues, Expenses and Changes in Net Assets
for the six months ended
December 31, 2011
(unaudited)
(with comparative totals for the six months ended December 31, 2010)
(in thousands)

	Bond Funds							Fiscal 2012 General Reserve and Bond Funds Six Months Ended December 31, 2011	Fiscal 2011 General Reserve and Bond Funds Six Months Ended December 31, 2010	
	General Reserve	Rental Housing	RHFB Excluding Pool 3	Single Family	Homeownership Finance Bonds	Multifamily Housing Bonds	General Reserve and Bond Funds Excluding Pool 3			RHFB Pool 3
Revenues										
Interest earned on loans	\$ -	\$ 5,308	\$ 48,342	\$ 3,493	\$ -	\$ 328	\$ 57,471	\$ 330	\$ 57,801	\$ 62,735
Interest earned on investments-program mortgage-backed securities	-	-	301	-	9,004	-	9,305	-	9,305	2,142
Interest earned on investments-other	(11)	1,182	3,987	618	46	16	5,838	408	6,246	10,386
Administrative reimbursement	10,812	-	-	-	-	-	10,812	-	10,812	10,398
Fees earned and other income	4,413	266	403	-	-	-	5,082	2	5,084	5,386
Unrealized gains (losses) on securities	70	1,011	4,705	417	22,505	(2)	28,706	972	29,678	(2,263)
Total revenues	15,284	7,767	57,738	4,528	31,555	342	117,214	1,712	118,926	88,784
Expenses										
Interest	-	3,753	36,126	2,373	6,955	228	49,435	-	49,435	48,355
Loan administration and trustee fees	-	98	2,576	188	76	1	2,939	5	2,944	3,117
Administrative reimbursement	-	801	6,405	500	1,138	48	8,892	513	9,405	8,904
Salaries and benefits	8,557	-	-	-	-	-	8,557	-	8,557	8,808
Other general operating	3,029	-	-	-	-	-	3,029	955	3,984	4,739
Reduction in carrying value of certain low interest rate deferred loans	-	(26)	(713)	-	-	-	(739)	1,365	626	8,813
Provision for loan losses	-	(1,279)	8,611	384	-	50	7,766	386	8,152	12,278
Total expenses	11,586	3,347	53,005	3,445	8,169	327	79,879	3,224	83,103	95,014
Revenues over (under) expenses	3,698	4,420	4,733	1,083	23,386	15	37,335	(1,512)	35,823	(6,230)
Other changes										
Non-operating transfer of assets between funds	(5,365)	-	(3,044)	-	8,642	-	233	(233)	-	-
Change in net assets	(1,667)	4,420	1,689	1,083	32,028	15	37,568	(1,745)	35,823	(6,230)
Net Assets										
Total net assets, beginning of period	21,929	95,157	479,157	71,075	15,516	804	683,638	68,502	752,140	756,728
Total net assets, end of period	\$ 20,262	\$ 99,577	\$ 480,846	\$ 72,158	\$ 47,544	\$ 819	\$ 721,206	\$ 66,757	\$ 787,963	\$ 750,498

General Reserve & Bond Funds
Statement of Cash Flows
for the six months ended
December 31, 2011
(unaudited)
(with comparative totals for the six months ended December 31, 2010)
(in thousands)

	Bond Funds							Fiscal 2012 General Reserve and Bond Funds Six Months Ended December 31, 2011	Fiscal 2011 General Reserve and Bond Funds Six Months Ended December 31, 2010	
	General Reserve	Rental Housing	RHFB Excluding Pool 3	Single Family	Homeownership Finance Bonds	Multifamily Housing Bonds	General Reserve and Bond Funds Excluding Pool 3			
Cash flows from operating activities:										
Principal repayments on loans and program mortgage-backed securities	\$ -	\$ 11,863	\$ 79,226	\$ 6,040	\$ 5,845	\$ -	\$ 102,974	\$ 759	\$ 103,733	\$ 109,977
Investment in loans and program mortgage-backed securities	-	(7,646)	(23,696)	(17)	(177,686)	(9,997)	(219,042)	(7,196)	(226,238)	(219,170)
Interest received on loans and program mortgage-backed securities	-	5,358	46,192	3,270	9,255	327	64,402	325	64,727	63,326
Other operating	-	-	-	-	-	-	-	(950)	(950)	(2,046)
Fees and other income received	4,714	266	5,007	-	-	-	9,987	2	9,989	7,983
Salaries, benefits and vendor payments	(11,217)	(97)	(6,511)	(186)	(81)	(1)	(18,093)	(102)	(18,195)	(16,453)
Administrative reimbursement from funds	9,803	(801)	(6,405)	(500)	(792)	(48)	1,257	(513)	744	1,516
Deposits into funds held for others	16,090	-	-	-	-	-	16,090	-	16,090	16,239
Disbursements made from funds held for others	(19,514)	-	-	-	-	-	(19,514)	-	(19,514)	(16,381)
Interfund transfers and other assets	(529)	(106)	161	534	(19)	-	41	101	142	(183)
Net cash provided (used) by operating activities	(653)	8,837	93,974	9,141	(163,478)	(9,719)	(61,898)	(7,574)	(69,472)	(55,192)
Cash flows from noncapital financing activities:										
Proceeds from sale of bonds and notes	-	-	25,000	-	152,127	-	177,127	-	177,127	1,367,871
Principal repayment on bonds and notes	-	(9,530)	(385,750)	(10,615)	(1,780)	-	(407,675)	-	(407,675)	(1,382,620)
Interest paid on bonds and notes	-	(3,667)	(37,924)	(2,532)	(3,551)	(226)	(47,900)	-	(47,900)	(49,494)
Financing costs paid related to bonds issued	-	-	(271)	-	(1,896)	-	(2,167)	-	(2,167)	(1,636)
Interest paid/received between funds	-	-	-	-	-	-	-	-	-	-
Agency contribution to program funds	-	-	(1,689)	-	1,689	-	-	-	-	-
Transfer of cash between funds	(3,746)	-	3,054	-	-	-	(692)	692	-	-
Net cash provided (used) by noncapital financing activities	(3,746)	(13,197)	(397,580)	(13,147)	146,589	(226)	(281,307)	692	(280,615)	(65,879)
Cash flows from investing activities:										
Investment in real estate owned	-	-	(3,533)	(420)	-	-	(3,953)	-	(3,953)	(2,951)
Interest received on investments	589	1,177	2,058	1,037	(572)	12	4,301	450	4,751	9,097
Proceeds from sale of mortgage insurance claims/real estate owned	-	-	38,426	1,654	-	-	40,080	-	40,080	37,397
Proceeds from maturity, sale or transfer of investment securities	40,019	35,572	502,383	10,287	499	12,977	601,737	20,462	622,199	996,902
Purchase of investment securities	-	(35,044)	(249,926)	(9,805)	(500)	(12,975)	(308,250)	(15,300)	(323,550)	(979,226)
Purchase of loans between funds	-	-	(1,631)	-	-	-	(1,631)	1,631	-	-
Net cash provided (used) by investing activities	40,608	1,705	287,777	2,753	(573)	14	332,284	7,243	339,527	61,219
Net increase (decrease) in cash and cash equivalents	36,209	(2,655)	(15,829)	(1,253)	(17,462)	(9,931)	(10,921)	361	(10,560)	(59,852)
Cash and cash equivalents:										
Beginning of period	57,539	45,721	219,159	38,088	93,735	15,523	469,765	3,922	473,687	614,853
End of period	\$ 93,748	\$ 43,066	\$ 203,330	\$ 36,835	\$ 76,273	\$ 5,592	\$ 458,844	\$ 4,283	\$ 463,127	\$ 555,001

General Reserve & Bond Funds
Statement of Cash Flows, continued
for the six months ended
December 31, 2011
(unaudited)
(with comparative totals for the six months ended December 31, 2010)
(in thousands)

	Bond Funds							Fiscal 2012 General Reserve and Bond Funds Six Months Ended December 31, 2011	Fiscal 2011 General Reserve and Bond Funds Six Months Ended December 31, 2010	
	General Reserve	Rental Housing	RHFB Excluding Pool 3	Single Family	Homeownership Finance Bonds	Multifamily Housing Bonds	General Reserve and Bond Funds Excluding Pool 3			RHFB Pool 3
Reconciliation of revenue over (under) expenses to net cash provided (used) by operating activities:										
Revenues over (under) expenses	\$ 3,698	\$ 4,420	\$ 4,733	\$ 1,083	\$ 23,386	\$ 15	\$ 37,335	\$ (1,512)	\$ 35,823	\$ (6,230)
Adjustments to reconcile revenues over (under) expenses to net cash provided (used) by operating activities:										
Amortization of (discounts) premiums and fees on loans and program mortgage-backed securities	-	(31)	515	(77)	251	-	658	(11)	647	708
Depreciation	688	-	-	-	-	-	688	-	688	752
Realized losses (gains) on securities, net	175	(57)	(302)	(26)	(23)	(2)	(235)	(7)	(242)	(219)
Unrealized (gains) losses on securities, net	(70)	(1,011)	(4,705)	(417)	(22,505)	2	(28,706)	(972)	(29,678)	2,263
Provision for loan losses	-	(1,279)	8,611	384	-	50	7,766	386	8,152	12,278
Reduction in carrying value of certain low interest rate and/or deferred loans	-	(26)	(713)	-	-	-	(739)	1,365	626	8,813
Capitalized interest on loans and real estate owned	-	-	(3,228)	(234)	-	-	(3,462)	-	(3,462)	(3,880)
Interest earned on investments	(164)	(1,162)	(3,564)	(1,030)	(23)	(14)	(5,957)	(401)	(6,358)	(9,375)
Interest expense on bonds and notes	-	3,753	36,126	2,373	6,955	228	49,435	-	49,435	48,355
Changes in assets and liabilities:										
Decrease (increase) in loans receivable and program mortgage backed securities, excluding loans transferred between funds	-	4,217	55,530	6,023	(171,841)	(9,997)	(116,068)	(6,437)	(122,505)	(109,193)
Decrease (increase) in interest receivable on loans and program mortgage-backed securities	-	33	262	88	-	(1)	382	6	388	586
Increase (decrease) in arbitrage rebate liability	-	87	(121)	438	-	-	404	-	404	243
(Decrease) increase in accounts payable	(327)	(1)	646	14	(15)	-	317	(92)	225	(36)
(Decrease) increase in interfund payable, affecting operating activities only	(1,001)	(108)	44	(25)	327	-	(763)	102	(661)	(3)
(Decrease) increase in funds held for others	(3,424)	-	-	-	-	-	(3,424)	-	(3,424)	(142)
Other	(228)	2	140	547	10	-	471	(1)	470	(112)
Total	(4,351)	4,417	89,241	8,058	(186,864)	(9,734)	(99,233)	(6,062)	(105,295)	(48,962)
Net cash provided (used) by operating activities	\$ (653)	\$ 8,837	\$ 93,974	\$ 9,141	\$ (163,478)	\$ (9,719)	\$ (61,898)	\$ (7,574)	\$ (69,472)	\$ (55,192)

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

Cash and Cash Equivalents

Cash and cash equivalents are stated at cost which approximates market value and comprise the following at December 31, 2011 (in thousands):

<u>Funds</u>	<u>Deposits</u>	<u>Money Market Funds</u>	<u>State Investment Pool</u>	<u>Investment Agreements</u>	<u>Combined Totals</u>
General Reserve	\$ -	\$ -	\$ 93,748	\$ -	\$ 93,748
Rental Housing	-	21,786	-	21,280	43,066
Residential Housing Finance	3,830	103,621	-	95,879	203,330
Single Family	385	4,718	-	31,732	36,835
Homeownership Finance	-	76,273	-	-	76,273
Multifamily Housing	-	5,592	-	-	5,592
Subtotal	<u>4,215</u>	<u>211,990</u>	<u>93,748</u>	<u>148,891</u>	<u>458,844</u>
RHFB Pool 3	21	4,262	-	-	4,283
Total	<u>\$ 4,236</u>	<u>\$ 216,252</u>	<u>\$ 93,748</u>	<u>\$ 148,891</u>	<u>\$ 463,127</u>

**General Reserve & Bond Funds
Investment Securities
(unaudited)**

Investment Securities

Investment securities (comprising US Treasuries, US Agencies, certificates of deposit, commercial paper, corporate notes and mortgage-backed securities*) are recorded at fair market value and were allocated to the following funds at December 31, 2011 (in thousands):

<u>Funds</u>	Amortized Cost	Unrealized Appreciation in Fair Market Value	Estimated Fair Market Value
General Reserve	\$ 5,019	\$ 216	\$ 5,235
Rental Housing	40,375	929	41,304
Residential Housing Finance	158,612	6,130	164,742
Single Family	11,047	443	11,490
Homeownership Finance	494,974	29,809	524,783
Multifamily Housing	475	1	476
Subtotal	710,502	37,528	748,030
RHFB Pool 3	32,017	1,481	33,498
Total	<u>\$ 742,519</u>	<u>\$ 39,009</u>	<u>\$781,528</u>

*Mortgage-Backed Securities Investments

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

The difference between the fair market value and amortized cost for MBS warehoused for the Dakota County Community Development Agency and the Minneapolis/St. Paul Housing Finance Board are not reflected in the Unrealized Gain/Loss income account. Instead, it is displayed as a liability in Funds Held for Others. This treatment reflects the agreement between the Agency and these two entities which states that the Agency will sell the MBS to them at par, not market value.

General Reserve & Bond Funds
Loans Receivable, net
unaudited

Loans Receivable, net

Loans receivable, net at December 31, 2011 consist of the following (in thousands):

<u>Funds</u>	<u>Gross Loans Receivable</u>	<u>Allowance for Loan Losses</u>	<u>Unamortized (Discounts)/ Premiums</u>	<u>Loans Receivable, net</u>
General Reserve	\$ -	\$ -	\$ -	\$ -
Rental Housing	178,986	(8,757)	(1,337)	168,892
Residential Housing Finance	1,656,299	(31,135)	(43)	1,625,121
Single Family	111,205	(1,029)	(676)	109,500
Homeownership Finance	-	-	-	-
Multifamily Housing	9,997	(50)	(382)	9,565
Subtotal	<u>1,956,487</u>	<u>(40,971)</u>	<u>(2,438)</u>	<u>1,913,078</u>
RHFB Pool 3	144,411	(115,181)	(606)	28,624
Total	<u>\$ 2,100,898</u>	<u>\$ (156,152)</u>	<u>\$ (3,044)</u>	<u>\$ 1,941,702</u>

Included in the table above are certain loans residing in RHFB Pool 3 that are originated at interest rates ranging from 0% to 5% and repayment of which is deferred for up to 30 years. These loans are generally in either a second or lower mortgage position or may be unsecured. Given the nature of these loans and the risk associated with them, at the time of origination most are fully reserved resulting in a net carrying value of zero. As of December 31, 2011, the principal amount of loans with such characteristics aggregated \$126.206 million in RHFB Pool 3.

General Reserve & Bond Funds
Loans Receivable, net
unaudited

Loans Receivable, net (continued)

Change in Loan Loss Reserve Methodology

The Agency changed the loan loss reserve methodology for first lien multifamily mortgage loans for the fiscal year ending June 30, 2012. The previous methodology assigned a static fixed percentage loan loss reserve based upon the category of each loan (Section 236, bridge, etc.). The new methodology examines quarterly the financial risk loan-by-loan and assigns a loan loss reserve percentage based upon that risk. The effects of the changed methodology on the financial statements as of December 31, 2011 were as follows (in thousands):

<u>Funds</u>	Previous Methodology- Allowance for Loan Loss	New Methodology- Allowance for Loan Loss	Decrease in Provision for Loan Loss Expense
Residential Housing Finance- Pool 2	\$ 10,784	\$ 2,676	\$ 8,108
Rental Housing	11,103	9,781	1,322
Multifamily Housing Bonds	500	50	450
Total	<u>\$ 22,387</u>	<u>\$ 12,507</u>	<u>\$ 9,880</u>

General Reserve & Bond Funds
Bonds Payable, net
unaudited

Bonds Payable, net

Bonds payable, net at December 31, 2011 consist of the following (in thousands):

<u>Funds</u>	<u>Par Bonds Outstanding</u>	<u>Net Unamortized Premium and Deferred Fees</u>	<u>Net Unamortized Deferred Loss</u>	<u>Bonds Payable, Net</u>
General Reserve	\$ -	\$ -	\$ -	\$ -
Rental Housing	149,670	-	(1,355)	148,315
Residential Housing Finance	1,520,535	1,975	(402)	1,522,108
Single Family	86,890	-	-	86,890
Homeownership Finance	547,895	3,834	-	551,729
Multifamily Housing	15,000	-	-	15,000
Subtotal	<u>2,319,990</u>	<u>5,809</u>	<u>(1,757)</u>	<u>2,324,042</u>
RHFB Pool 3	-	-	-	-
Total	<u><u>\$ 2,319,990</u></u>	<u><u>\$ 5,809</u></u>	<u><u>\$ (1,757)</u></u>	<u><u>\$ 2,324,042</u></u>

General Reserve & Bond Funds
Interest Rate Swaps
(unaudited)



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 December 31, 2011. The fair values approximate the termination payments that would have been due had the swaps been terminated as of December 31, 2011. 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 December 31, 2011, 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 December 31, 2011 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.

Terms of Swaps

Terms of the swaps, the fair values, changes in fair values, and the credit ratings of the three counterparties thereto as of December 31, 2011, are contained in the three tables below (in thousands). All swaps are pay-fixed, receive-variable. Initial swap notional amounts matched original principal amounts of the associated debt. The Agency's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximate scheduled or anticipated reductions in outstanding principal amounts of the associated bond series. With respect to the outstanding swaps (except for the 2009 F swap), the Agency has also purchased the right, generally based upon a 300% PSA prepayment rate (The Standard Prepayment Model of The Securities Industry and Financial Markets Association and formerly the Public Securities Association) on the underlying mortgage loans, to further reduce the notional balances of the swaps as necessary to match the outstanding principal amount of the associated bond series and, except for the 2003B, 2003J, 2004G, and 2009F swaps, the right to terminate the swaps at par at approximately the 10-year anniversary date of the swap. The Agency also has the right to terminate outstanding swaps in whole or in part at fair value at any time if it is not in default thereunder.

General Reserve & Bond Funds
Interest Rate Swaps
(unaudited)



Counterparty: UBS AG

Moody's Aa3 (negative outlook) / Standard & Poor's A (negative outlook)

Associated Bond Series	Notional Amount as of December 31, 2011	Effective Date	Swap Maturity Date	Fixed Rate Payable	Variable Rate Receivable	Fair Value ¹ as of December 31, 2011	Increase (Decrease) in Fair Value since Fiscal Year Ended June 30, 2011
RHFB 2003B	\$ 25,000	July 23, 2003	January 1, 2033	3.532%	65% of 1 month LIBOR* plus 0.23% per annum	\$ (1,743)	\$ (742)
RHFB 2003J	19,770	October 15, 2003	July 1, 2033	4.183%	65% of 1 month LIBOR* plus 0.23% per annum	(2,397)	(581)
RHFB 2005C	17,825	March 2, 2005	January 1, 2035	3.587%	64% of 1 month LIBOR* plus 0.28% per annum	(1,236)	(86)
RHFB 2006C	23,185	March 21, 2006	January 1, 2037	3.788%	64% of 1 month LIBOR* plus 0.29% per annum	(2,305)	(349)
RHFB 2007S	18,975	December 19, 2007	July 1, 2038	4.340%	100% of SIFMA** Index plus 0.06% per annum	(1,713)	(1,000)
RHFB 2007T	26,955	December 19, 2007	July 1, 2026	4.580%	100% of 1 month LIBOR*	(3,170)	(582)
	\$131,710					\$ (12,564)	\$ (3,340)

General Reserve & Bond Funds
Interest Rate Swaps
(unaudited)

Counterparty: Royal Bank of Canada

Moody's Aa1 (stable outlook²) / Standard & Poor's AA- (stable outlook)

Associated Bond Series	Notional Amount as of December 31, 2011	Effective Date	Swap Maturity Date	Fixed Rate Payable	Variable Rate Receivable	Fair Value ¹ as of December 31, 2011	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	\$ (3,212)	\$ (313)
RHFB 2007E	17,615	March 7, 2007	July 1, 2038	5.738%	100% of 1 month LIBOR*	(2,002)	(134)
RHFB 2007J	27,070	May 17, 2007	July 1, 2038	5.665%	100% of 1 month LIBOR*	(3,107)	(282)
RHFB 2008C	40,000	August 7, 2008	July 1, 2048	4.120%	64% of 1 month LIBOR* plus 0.30% per annum	(5,347)	(1,804)
RHFB 2009C	40,000	February 12, 2009	July 1, 2039	3.070%	64% of 1 month LIBOR* plus 0.30% per annum	(6,793)	(2,114)
RHFB 2009F	27,510	December 1, 2009	September 12, 2017	2.365%	100% of weekly SIFMA** plus 0.80% per annum	(1,216)	(240)
	\$186,535					\$ (21,677)	\$ (4,887)

Counterparty: The Bank of New York Mellon

Moody's Aaa (negative outlook)³ / Standard & Poor's AA- (negative outlook)

Associated Bond Series	Notional Amount as of December 31, 2011	Effective Date	Swap Date	Maturity	Fixed Rate Payable	Variable Rate Receivable	Fair Value ¹ as of December 31, 2011	Increase (Decrease) in Fair Value since Fiscal Year Ended June 30, 2011
RHFB 2005I	\$ 28,505	June 2, 2005	January 1, 2036		3.570%	64% of 1 month LIBOR* plus 0.28% per annum	\$ (2,343)	\$ (298)
RHFB 2005M	41,725	August 4, 2005	January 1, 2036		3.337%	64% of 1 month LIBOR* plus 0.29% per annum	(3,214)	(458)
	\$ 70,230						\$ (5,557)	\$ (756)
Combined Totals	\$388,475						\$ (39,798)	\$ (8,983)

General Reserve & Bond Funds
Interest Rate Swaps
(unaudited)



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 On February 15, 2012 Moody's changed the outlook for Royal Bank of Canada from stable outlook to negative watch.

³ On March 8, 2012 Moody's downgraded the rating of The Bank of New York Mellon to Aa1 and changed the outlook from negative to stable.

* London Inter-Bank Offered Rate

** Securities Industry and Financial Markets Association

Termination Risk

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

Credit Risk

A swap potentially exposes the Agency to credit risk with the counterparty. The fair value of a swap represents the Agency's current potential credit exposure to the swap counterparty assuming the occurrence of a termination event. As of December 31, 2011, the Agency did not have a net credit risk exposure to any of its three counterparties because their respective combined swap positions had a negative net fair value, as set forth in the foregoing tables. Each of the swap agreements requires that, upon demand, a party post collateral to secure its obligation to make a termination payment to the extent the fair value exceeds a collateral threshold specified in the agreement. The collateral threshold for each counterparty and the Agency is \$50 million if the ratings on the unsubordinated, unsecured long-term indebtedness of the counterparty, in the case of the counterparty, or the hedged bonds, in the case of the Agency, are not less than "AA-" and "Aa3" from Standard & Poor's and Moody's, respectively, \$5 million if the ratings are not less than "A+" and "A1", \$3 million if the ratings are not less than "A" and "A2", and \$0, if either rating is lower. These bilateral requirements are established to mitigate potential credit risk exposure. As of December 31, 2011, 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.

General Reserve & Bond Funds
Interest Rate Swaps
(unaudited)



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 taxable LIBOR rate or the SIFMA index rate, plus a specified spread if the swap relates to tax-exempt bonds. Basis risk will vary over time due to inter-market conditions. As of December 31, 2011, the interest rate on the Agency's variable rate tax-exempt debt ranged from 0.09% to 0.18% per annum while the variable interest rate on the associated swaps ranged from 0.16% to 0.50% per annum. As of December 31, 2011, the interest rate on the Agency's variable rate taxable debt was 0.22% per annum while the variable interest rate on the corresponding swaps ranged from 0.27% to 0.30% 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.

APPENDIX C

SUMMARY OF CONTINUING DISCLOSURE UNDERTAKING

The following statements are extracted provisions of the Continuing Disclosure Undertaking to be executed by the Agency in connection with the issuance of the Series Bonds.

Purpose

This Disclosure Undertaking is executed and delivered by the Agency for the benefit of the holders and owners (the “Bondowners”) and the Beneficial Owners of the Series Bonds and in order to assist the Participating Underwriter in complying with the requirements of the Rule. There is no obligated person other than the Agency that is a party to the Disclosure Undertaking.

Definitions

In addition to the definitions set forth in the Resolutions, which apply to any capitalized term used in this Disclosure Undertaking, the following capitalized terms shall have the following meanings:

“*Annual Financial Information*” means the following financial information and operating data (in addition to Audited Financial Statements): information about the outstanding principal amounts and types of Program Securities pledged to the payment of Bonds outstanding under the Bond Resolution as the end of such fiscal year of a type substantially similar to that under the heading “The Residential Housing Finance Program—Mortgage Loan Portfolio and Acquired Program Securities” in the Official Statement; information of the type set forth in Appendix H to the Official Statement relating to mortgage insurance and delinquency and foreclosure statistics for the single family mortgage whole loan portfolio funded by Bonds; information of the type set forth in Appendix I to the Official Statement relating to liquidity facilities for outstanding Bonds; and information of the type set forth in the chart labeled “Investment Agreement Providers” under the heading “Security for the Bonds – Investment Obligations” in the Official Statement concerning funds held in respect of Bonds under the Bond Resolution in investment agreements.

“*Annual Financial Information Disclosure*” means the dissemination of disclosure concerning Annual Financial Information and the dissemination of the Audited Financial Statements as described under “Annual Financial Information Disclosure” herein.

“*Audited Financial Statements*” means the audited financial statements of the Agency, prepared pursuant to the standards and as described under the caption “Annual Financial Information Disclosure.”

“*Beneficial Owners*” means (1) in respect of a Series Bond subject to a book-entry-only registration system, any person or entity that (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, such Series Bond (including persons or entities holding Series Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of the Series Bond for federal income tax purposes, and such person or entity provides to the Trustee evidence of such beneficial ownership in form and substance reasonably satisfactory to the Trustee; or (2) in respect of a Series Bond not subject to a book-entry-only registration system, the registered owner or owners thereof appearing in the bond register maintained by the Trustee, as Registrar.

“*Commission*” means the Securities and Exchange Commission.

“*EMMA*” means the Electronic Municipal Market Access facility for municipal securities disclosure of the MSRB.

“*Exchange Act*” means the Securities Exchange Act of 1934, as amended.

“*Listed Event*” means the occurrence of any of the events with respect to the Series Bonds set forth below:

1. Principal and interest payment delinquencies;

2. Nonpayment-related defaults, if material;
3. Unscheduled draws on debt service reserves reflecting financial difficulties;
4. Unscheduled draws on credit enhancements reflecting financial difficulties;
5. Substitution of credit or liquidity providers, or their failure to perform;
6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security;
7. Modifications to rights of security holders, if material;
8. Bond calls, if material, and tender offers;
9. Defeasances;
10. Release, substitution or sale of property securing repayment of the securities, if material;
11. Rating changes;
12. Bankruptcy, insolvency, receivership or similar event of the Agency (within the meaning of the Rule);
13. The consummation of a merger, consolidation or acquisition involving the Agency or the sale of all or substantially all of the assets of the Agency, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
14. Appointment of a successor or additional trustee or the change of name of a trustee, if material.

“*Listed Events Disclosure*” means dissemination of a notice of a Listed Event as described under the heading “Listed Events Disclosure” in this Appendix C.

“*MSRB*” means the Municipal Securities Rulemaking Board.

“*Participating Underwriter*” means each broker, dealer or municipal securities dealer acting as an underwriter in any primary offering of the Series Bonds.

“*Prescribed Form*” means, with regard to the filing of Annual Financial Information, Audited Financial Statements and notices of Listed Events with the MSRB at www.emma.msrb.org (or such other address or addresses as the MSRB may from time to time specify), such electronic format, accompanied by such identifying information, as shall have been prescribed by the MSRB and which shall be in effect on the date of filing of such information.

“*Rule*” means Rule 15c2-12 adopted by the Commission under the Exchange Act, as the same may be amended from time to time.

“*Undertaking*” means the obligations of the Agency described under the headings “Annual Financial Information Disclosure” and “Listed Events Disclosure” in this Appendix C.

Annual Financial Information Disclosure

The Agency shall disseminate the Annual Financial Information and the Audited Financial Statements (in the form and by the dates set forth below) for each fiscal year of the Agency, commencing with the fiscal year ending June 30, 2012, by one of the following methods: (i) the Agency may deliver such Annual Financial Information and the Audited Financial Statements to the MSRB within 120 days of the completion of the Agency's fiscal year or (ii) delivery of an Official Statement of the Agency to the MSRB within 120 days of the completion of the Agency's fiscal year, but only to the extent such Official Statement includes such Annual Financial Information and Audited Financial Statements.

The Agency shall deliver such information in Prescribed Form and by such time so that such entities receive the information by the dates specified.

If any part of the Annual Financial Information can no longer be generated because the operations to which it is related have been materially changed or discontinued, the Agency shall disseminate a statement to such effect as part of its Annual Financial Information for the year in which such event first occurs.

If any amendment is made to this Disclosure Undertaking, the Annual Financial Information for the year in which such amendment is made (or in any notice or supplement provided to the MSRB) shall contain a narrative description of the reasons for such amendment and its impact on the type of information being provided.

All or a portion of the Annual Financial Information and the Audited Financial Statements may be included by reference to other documents which have been submitted to the MSRB or filed with the Commission. The Agency shall clearly identify each such item of information included by reference.

Annual Financial Information will be provided to the MSRB within 120 days after the last day of the Agency's fiscal year. Audited Financial Statements as described below should be filed at the same time as the Annual Financial Information. If Audited Financial Statements are not available when the Annual Financial Information is filed, unaudited financial statements shall be included, and Audited Financial Statements will be provided to the MSRB within 10 business days after availability to the Agency.

Audited Financial Statements will be prepared in accordance with generally accepted accounting principles in the United States as in effect from time to time.

If any change is made to the Annual Financial Information as permitted by the Disclosure Undertaking, including for this purpose a change made to the fiscal year-end of the Agency, the Agency will disseminate a notice to the MSRB of such change in Prescribed Form.

Listed Events Disclosure

The Agency shall disseminate in a timely manner, not in excess of 10 business days after the occurrence of the event, Listed Events Disclosure to the MSRB in Prescribed Form. Notwithstanding the foregoing, notice of optional or unscheduled redemption of any Series Bonds or defeasance of any Series Bonds need not be given under this Disclosure Undertaking any earlier than the notice (if any) of such redemption or defeasance is given to the owners of the Series Bonds pursuant to the Resolution.

Consequences of Failure of the Agency To Provide Information

The Agency shall give notice in a timely manner, not in excess of 10 business days after the occurrence of the event, to the MSRB in Prescribed Form of any failure to provide Annual Financial Information Disclosure when the same is due hereunder.

In the event of a failure of the Agency to comply with any provision of this Disclosure Undertaking, the Bondowner or Beneficial Owner of any Series Bond may seek specific performance by court order to cause the Agency to comply with its obligations under this Disclosure Undertaking. A default under this Disclosure Undertaking shall not be deemed an Event of Default under the Resolution or any other agreement, and the sole remedy under this Disclosure Undertaking in the event of any failure of the Agency to comply with this Disclosure Undertaking shall be an action to compel performance.

Amendment; Waiver

Notwithstanding any other provision of this Disclosure Undertaking, the Agency may amend this Disclosure Undertaking, and any provision of this Disclosure Undertaking may be waived, if:

(i) The amendment or waiver is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of the Agency or type of business conducted;

(ii) This Disclosure Undertaking, as amended, or the provision, as waived, would have complied with the requirements of the Rule at the time of the primary offering, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(iii) The amendment or waiver does not materially impair the interests of the Bondowners of the Series Bonds, as determined either by parties unaffiliated with the Agency (such as the Trustee) or by an approving vote of the Bondowners of the Series Bonds holding a majority of the aggregate principal amount of the Series Bonds (excluding Series Bonds held by or on behalf of the Agency or its affiliates) pursuant to the terms of the Resolution at the time of the amendment; or

(iv) The amendment or waiver is otherwise permitted by the Rule.

Termination of Undertaking

This Disclosure Undertaking shall terminate when the Agency shall no longer have any legal liability for any obligation on or relating to the repayment of the Series Bonds. The Agency shall give notice to the MSRB in a timely manner and in Prescribed Form if the Undertaking is so terminated before the final stated maturity of the Series Bonds.

Additional Information

Nothing in this Disclosure Undertaking shall be deemed to prevent the Agency from disseminating any other information, using the means of dissemination set forth in this Disclosure Undertaking or any other means of communication, or including any other information in any Annual Financial Information Disclosure or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Undertaking. If the Agency chooses to include any information from any document or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Undertaking, the Agency shall not have any obligation under this Disclosure Undertaking to update such information or include it in any future disclosure or notice of the occurrence of a Listed Event.

Beneficiaries

This Disclosure Undertaking has been executed in order to assist the Participating Underwriter in complying with the Rule; however, this Disclosure Undertaking shall inure solely to the benefit of the Agency, the Bondowners and Beneficial Owners of the Series Bonds, and shall create no rights in any other person or entity.

Recordkeeping

The Agency shall maintain records of all Annual Financial Information Disclosure and Listed Events Disclosure, including the content of such disclosure, the names of the entities with whom such disclosure was filed and the date of filing such disclosure.

APPENDIX D

SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION

The following statements are brief summaries of certain provisions of the Bond Resolution. Terms defined herein are identical in all material respects with the definitions in the Bond Resolution or the 2012 Series Resolution.

Certain Defined Terms

Agency Certificate: As the case may be, a document signed by an Authorized Officer either (i) attesting to or acknowledging the circumstances, representations or other matters therein stated or set forth or (ii) setting forth matters to be determined by the Agency or an Authorized Officer pursuant to the Bond Resolution or (iii) requesting or directing the Trustee or other party to take action pursuant to the Bond Resolution.

Agency Swap Payment: A payment due to a Swap Counterparty from the Agency pursuant to the applicable Swap Agreement (including, but not limited to, payments in respect of any early termination of such Swap Agreement).

Authorized Officer: The Chairperson, Vice Chairperson, Commissioner or Deputy Commissioner of the Agency or any other person authorized by resolution of the Agency to perform an act or sign a document.

Cash Flow Certificate: A certificate from an Authorized Officer giving effect to the action proposed to be taken and demonstrating that in the current and in each succeeding Fiscal Year in which Bonds are scheduled to be Outstanding that Revenues and other amounts expected to be on deposit in the Funds and Accounts established hereunder or under any Series Resolution (excluding the Insurance Reserve Fund and, except to the extent otherwise provided in a Series Resolution, the Alternative Loan Fund) will be at least equal to all amounts required to be on deposit in order to pay the Debt Service on the Bonds and to maintain the Debt Service Reserve Requirement and Insurance Reserve Requirement; provided that, to the extent specified in a Series Resolution, a Fund or Account (other than those excluded above) shall not be taken into account when preparing such Cash Flow Certificate. The Cash Flow Certificate shall set forth the assumptions upon which the estimates therein are based, which assumptions shall be based upon the Agency's reasonable expectations at the time such Cash Flow Certificate is filed. The Agency may assume in a Cash Flow Certificate that, if Bonds of a series are issued for purposes other than the Financing of Program Loans for the acquisition of owner-occupied housing, amounts to be deposited in or irrevocably appropriated to any Fund or Account established under the Bond Resolution (other than the Alternative Loan Fund or, unless otherwise provided in a Series Resolution) from sources not subject to the lien of the Bond Resolution will be available in amounts and at times sufficient to pay the Debt Service on Outstanding Bonds of such series when due and to maintain the Debt Service Reserve Requirement and Insurance Reserve Requirement, if any, with respect to Outstanding Bonds of such series.

Code: The Internal Revenue Code of 1986, as amended, and the applicable temporary, proposed and final Treasury regulations promulgated thereunder or applicable thereto.

Counterparty Swap Payment: A payment due to or received by the Agency from a Swap Counterparty pursuant to a Swap Agreement (including, but not limited to, payments in respect of any early termination of such Swap Agreement) and amounts received by the Agency under any related Swap Counterparty Guarantee.

Debt Service Reserve Requirement: As of any particular date of computation, the sum of amounts established for each Series of Bonds by each Series Resolution.

Defaulted Program Loan: A Program Loan on which payments are 60 days in arrears (but not a Program Loan as to which all defaults have been cured to the satisfaction of the Agency).

Delivery Period: For the Series Bonds, the period of time for the purchase of Program Securities from the Master Servicer; the Delivery Period shall end on September 1, 2012, unless extended by the Agency pursuant to the 2012 Series Resolution; provided the Delivery Period may not be extended beyond September 15, 2015.

Fannie Mae: The Federal National Mortgage Association, or any successor thereto.

Fannie Mae Security: A single pool, guaranteed mortgage pass-through Fannie Mae Program Security, guaranteed as to timely payment of principal and interest by Fannie Mae and backed by Conventional Mortgage Loans, or FHA Insured or VA Guaranteed Program Loans, in the related mortgage pool.

Federal Mortgage Agency: The Government National Mortgage Association, the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, the Farmers Home Mortgage Corporation and such other public or private agencies or corporations as the United States Congress may create for the purpose of housing finance and which are an agency or instrumentality of the United States or sponsored thereby.

FHA: The Federal Housing Administration of the Department of Housing and Urban Development or any agency or instrumentality of the United States of America succeeding to the mortgage insurance functions thereof.

Finance or finance: When used with reference to a Program Obligation, shall be construed to include (i) the making or purchase of such Program Obligation, (ii) the participation by the Agency, either with itself or with others, in the making or purchase thereof, or (iii) the permanent financing of a Program Obligation which has been temporarily financed by the Agency through the issuance of notes or other obligations or otherwise.

Fiscal Year: The period of 12 calendar months commencing on July 1 in any calendar year and ending on June 30 in the following year, or such other 12-month period as may be designated by the Agency by Agency Certificate delivered to the Trustee.

Freddie Mac: The Federal Home Loan Mortgage Corporation, a corporate instrumentality of the United States created pursuant to the Federal Home Loan Mortgage Act (Title III of the Emergency Home Finance Act of 1970, as amended, 12 U.S.C. §§ 1451-1459), and any successor to its functions.

Freddie Mac Security: A single pool, guaranteed mortgage pass-through Freddie Mac program security, guaranteed as to timely payment of principal and interest by Freddie Mac and backed by Conventional Mortgage Loans, or FHA Insured or VA Guaranteed Program Loans, in the related mortgage pool

GNMA: The Government National Mortgage Association, a wholly owned corporate instrumentality of the United States within HUD, and any successor to its functions. Its powers are prescribed generally by Title III of the National Housing Act, as amended (12 U.S.C., §1716 et seq.).

Insurance Reserve Requirement: As of any particular date of computation, the sum of amounts, if any, established for each Series of Bonds by the Series Resolution.

Investment Obligations: Any of the following securities and other investments, if and to the extent the same are at the time legal for the investment of the Agency's moneys:

- (a) Direct obligations of, or obligations the timely payment of principal and interest on which are insured or guaranteed by, the United States of America;
- (b) Obligations (i) which are backed by the full faith and credit of any state of the United States of America, (ii) of any agency of the United States of America, or (iii) of any public corporation sponsored by the United States of America, provided that, at the time of purchase, such obligations shall not adversely affect the Rating of the Bonds;
- (c) Interest-bearing time or demand deposits, certificates of deposit or other similar banking arrangements with any bank, trust company, national banking association or other savings institution (including any Fiduciary) provided that (i) such deposits, certificates and other arrangements are fully insured by the Federal Deposit Insurance Corporation or guaranteed by the State, the proceeds of which insurance are timely available, or (ii) such Depository has combined capital and surplus of at least \$75,000,000 and such deposits, certificates and other arrangements are fully secured by obligations described in clause (a) or (b) of this definition, or a combination thereof, at such levels and valuation frequency as shall not adversely affect the Rating of the Bonds or (iii) the deposit of funds with such Depository will not adversely affect the Rating of the Bonds;

- (d) Repurchase agreements and reverse repurchase agreements with banks which are members of the Federal Deposit Insurance Corporation, or with government bond dealers reporting to and trading with the Federal Reserve Bank of New York, which agreements are secured by obligations described in the preceding clauses (a) and (b) of this definition;
- (e) Shares of (i) an investment company registered under the federal investment company act of 1940, whose shares are registered under the federal securities act of 1933, whose only investments are in securities described in subparagraphs (a) or (b) above, or (ii) a common trust fund established by a national banking association or a bank or trust company organized under the laws of any state with combined capital and surplus of at least \$75,000,000, under the supervision and regulation of the Comptroller of the Currency pursuant to 12 C.F.R. 9, or any successor regulation, whose only investments are in securities described in subparagraphs (a) or (b) above;
- (f) Any investment contract with any provider as long as such investment contract does not adversely affect the Rating of the Bonds; and
- (g) Any other investment that will not adversely affect the Rating of the Bonds.

Lender: To the extent permitted in the Act, any bank or trust company, savings and loan association, savings bank, credit union, insurance company or other financial intermediary (whether or not organized for profit) approved by the Agency or mortgage banker or mortgage broker authorized to deal in mortgage loans insured or guaranteed by an agency of the United States government. Such Lender shall be authorized to do business in the State, and shall have such qualifications as may be established from time to time by rules and regulations of the Agency. For purposes of the Bond Resolution, Lender shall also be deemed to include any federal or state agency, including the Agency, or any political subdivision of the State or agency thereof.

Parity Certificate: An Agency Certificate, giving effect to the action proposed to be taken in connection with the filing thereof, showing that (A) the sum of (i) the moneys, Investment Obligations and Cash Equivalents then credited to the Acquisition Accounts, the Revenue Fund, the Bond Fund Principal Account, the Bond Fund Interest Account and the Debt Service Reserve Fund, (ii) the unpaid principal amount of all Program Obligations credited to the Acquisition Accounts (other than any Acquisition Account funded with moneys transferred from the Alternative Loan Fund), and (iii) any other moneys, Investment Obligations and Cash Equivalents and the unpaid principal amount of all Program Obligations otherwise specifically pledged to the payment of Outstanding Bonds by a Series Resolution, exceeds (B) an amount equal to 103% of the principal amount of Outstanding Bonds of all Series.

Principal Requirement: As of any particular date of calculation with respect to Bonds Outstanding on that date, the amount of money equal to any unpaid Principal Installment then due plus the Principal Installment to become due on each Series of Bonds on the next respective Principal Installment Date within the next succeeding six months.

Private Mortgage Insurer: Any private mortgage insurance company approved by the applicable Federal Mortgage Agency and the Agency and providing private mortgage guaranty insurance on Conventional Mortgage Loans.

Program: The program for the financing of Program Obligations for Housing established by the Agency pursuant to the Act, as the same may be amended from time to time, and the Bond Resolution and for financing Other Obligations.

Program Loan: A loan for Housing secured in such manner as the Agency may specify in the applicable Series Resolution for Program Loans to be made from the proceeds of a Series of Bonds.

Program Obligation: Any Program Loan or Program Security acquired by the Agency by the expenditure of amounts in an Acquisition Account.

Program Security: An obligation representing an undivided interest in a pool of Program Loans, to the extent the payments to be made on such obligation are guaranteed or insured by a Federal Mortgage Agency.

Rating: With respect to any Series of Bonds, the rating issued by a Rating Agency in force immediately prior to the proposed action to be taken by the Agency under the Bond Resolution, and an action which does not “impair” the Rating with respect to any Series of Bonds shall be an action which will not cause the Rating Agency to lower or withdraw the rating it has assigned to the Series of Bonds.

Rating Agency: Any nationally recognized entity which, upon the request of the Agency, has issued a credit rating on any Series of Bonds issued pursuant to the Bond Resolution.

Revenues: With respect to the Outstanding Bonds, all payments, proceeds, rents, premiums, penalties, charges and other cash income received by the Agency from or on account of any Program Obligation (including scheduled, delinquent and advance payments of, and any net insurance or guaranty proceeds with respect to, principal and interest on any Program Obligation or the net operating income or net proceeds of sale of any property acquired thereunder) (exclusive, however, of Program Obligations, if any, credited to the Alternative Loan Fund), any Counterparty Swap Payments received from any Swap Counterparty pursuant to a Swap Agreement, any amounts deposited in or irrevocably appropriated to any Fund or Account established under the Bond Resolution (other than the Alternative Loan Fund, except as otherwise provided in a Series Resolution) from sources not subject to the lien of the Bond Resolution, and all interest earned or gain realized in excess of losses as a result of the investment of the amount in any Fund or Account established under the Bond Resolution (other than the Alternative Loan Fund, except as otherwise provided in a Series Resolution), but excludes (i) any amount retained by a servicer (including the Agency) of any Program Obligation as compensation for services rendered in connection with such Program Obligation, (ii) any payments for the guaranty or insurance of any Program Obligation, (iii) any payments of taxes, assessments or similar charges or premiums or other charges for fire or other hazard insurance (and any escrow payments in connection therewith) called for by or in connection with any Program Obligation, (iv) amounts payable with respect to a Program Obligation which represent a return on amounts financed by the Agency or by other persons pursuant to a participation, forbearance or other arrangement from sources other than proceeds of Bonds or other amounts held hereunder and (v) to the extent such items do not exceed the income derived therefrom, payments or charges constituting expenses of managing and maintaining property acquired pursuant to a Program Loan.

Series: All Bonds delivered on original issuance in a simultaneous transaction, regardless of variations in maturity, interest rate or other provisions, and any Bond thereafter delivered in lieu of or substitution for any of such Bonds pursuant to the Bond Resolution.

Series Resolution: A resolution of the Agency authorizing the issuance and delivery of Bonds pursuant to the Bond Resolution.

Swap Agreement: With respect to any Bonds, an interest rate exchange agreement between the Agency and a Swap Counterparty, as amended or supplemented, or other interest rate hedge agreement between the Agency and a Swap Counterparty, as amended or supplemented, for the purpose of converting, in whole or in part, (i) the Agency’s fixed interest rate liability on all or a portion of any Bonds to a variable rate liability, (ii) the Agency’s variable rate liability on all or a portion of any Bonds to a fixed rate liability or (iii) the Agency’s variable rate liability on all or a portion of any Bonds to a different variable rate liability.

Swap Counterparty: Any Person with whom the Agency shall from time to time enter into a Swap Agreement, as specified in a Series Resolution.

Swap Counterparty Guarantee: A guarantee in favor of the Agency given in connection with the execution and delivery of a Swap Agreement, as specified in a Series Resolution.

Series Accounts

Unless otherwise provided in a Series Resolution, the Trustee shall establish within each Fund under the Bond Resolution (other than the Alternative Loan Fund), a separate Series Account for each Series of Bonds. The proceeds of a particular Series of Bonds, other amounts made available by the Agency in the Series Resolution or otherwise relating to a particular Series of Bonds and the Revenues relating to a particular Series of Bonds (including the payments on Program Obligations acquired with the proceeds of a particular Series of Bonds or the payments on any other collateral pledged to a particular Series of Bonds and the earnings on investments of any of said proceeds, funds and amounts) shall be deposited or credited to the separate Series Accounts established for that

particular Series of Bonds. Where required to assure compliance with the covenants of the Bond Resolution and any Series Resolution, withdrawals from Series Accounts established in connection with a particular Series of Bonds may be made and used (including for purposes of redemption) for any other Series of Bonds. For purposes of investment, the Trustee, may, or shall at the direction of the Agency, consolidate the Series Accounts required to be established in a particular Fund so long as adequate records are maintained as to the amounts held in each such Fund allocable to each Series of Bonds. In addition to the Funds and Accounts established under the Bond Resolution, the Trustee may from time to time, establish, maintain, close and reestablish such accounts and subaccounts as may be requested by the Agency for convenience of administration of the Program and as shall not be inconsistent with the provisions of the Bond Resolution.

Cost of Issuance Accounts

Each Series Resolution authorizing the issuance of a Series of Bonds may, but is not required to, provide for a separate Cost of Issuance Account to be held by the Trustee. Moneys in each such Cost of Issuance Account shall be expended for Costs of Issuance of such Series of Bonds and for no other purpose upon receipt by the Trustee of a requisition signed by an Authorized Officer stating the amount and purpose of any such payment. Any amounts in a Cost of Issuance Account remaining therein upon payment of all Costs of Issuance for such Series of Bonds shall (i) if not proceeds of Bonds, be transferred to the Revenue Fund and (ii) if sale proceeds, investment proceeds or transferred proceeds of Bonds, be transferred to any one or more of the Acquisition Accounts or the Bond Redemption Fund, upon receipt by the Trustee of a Certificate of the Agency stating that such moneys are no longer needed for the payment of Costs of Issuance whereupon such Account shall be closed. Interest and other income derived from the investment or deposit of each such Cost of Issuance Account shall be transferred by the Trustee upon receipt thereof to the Revenue Fund.

Acquisition Accounts

Each Series Resolution authorizing the issuance of a Series of Bonds shall, unless such Bonds are Refunding Bonds for which no such account is necessary, establish a separate Acquisition Account to be held by the Trustee. There shall be deposited from time to time in each Acquisition Account (i) any proceeds of Bonds or other amounts required to be deposited therein pursuant to the Bond Resolution or the applicable Series Resolution and (ii) any other amounts determined by the Agency to be deposited therein from time to time.

Except as otherwise permitted or required to be transferred to other Funds and Accounts, amounts in an Acquisition Account shall be expended only to Finance Program Obligations. All Program Obligations Financed by application of amounts in an Acquisition Account shall be credited to such Acquisition Account or, if a Series Resolution so provides, to the Alternative Loan Fund. No Program Loan shall be Financed unless the requirements of the applicable Series Resolution have been met, and no Program Security shall be Financed unless the Program Security is registered in the name of the Trustee or is registered in the name of the Agency and delivered to the Trustee with a written assignment thereof to the Trustee pursuant to the Bond Resolution from and after the date such Program Security is Financed hereunder. In addition, no Program Security shall be Financed unless such Program Security represents a pass through or participation interest in a pool of Program Loans and provides for a guaranty of all payments to be made to the Agency thereunder by a Federal Mortgage Agency.

The Trustee shall pay out and permit the withdrawal of amounts on deposit in any Acquisition Account at any time for the purpose of making payments pursuant to the Bond Resolution, but only upon receipt of the following documents prior to any proposed withdrawal:

- (1) an Agency Certificate setting forth the amount to be paid, the person persons to whom such payment is to be made (which may be or include the Agency) and, in reasonable detail, the purpose or purposes of such withdrawal; and
- (2) an Agency Certificate stating that the amount to be withdrawn from such Acquisition Account pursuant to such requisition is a proper charge thereon and, if such requisition is made to Finance the acquisition of Program Obligations, that (i) the terms of such Program Obligations conform to the description of the Program Obligations to be Financed from such amount as provided to the Trustee pursuant to the terms of the Bond Resolution, and (ii) such Program Obligations otherwise comply with the provisions of the Bond Resolution.

At any time the Agency, by Agency Certificate, may direct the Trustee to transfer amounts in an Acquisition Account into the Bond Fund Principal Account or Bond Fund Interest Account, as appropriate, to pay principal or sinking fund installments of and interest on the related Series of Bonds, or into the appropriate account in the Debt Service Reserve Fund or Insurance Reserve Fund, which Request shall state that such transfer is appropriate to meet the requirements of said Fund.

The interest earned and other income derived from the investment or deposit of each Acquisition Account may be transferred to the appropriate account in the Revenue Fund for the related Series of Bonds by the Trustee upon receipt thereof to the extent that such amounts exceed any losses realized by investment of deposits in such Acquisition Account or may be retained in the Acquisition Account for the Financing of additional Program Obligations, as directed by Agency Certificate.

All amounts deposited into an Acquisition Account shall be disbursed in the manner provided in the Bond Resolution or the Agency may, by Agency Certificate, direct the Trustee to transfer any amounts from the Acquisition Account to the Bond Redemption Fund to be used for the redemption of Bonds of the related Series; provided, however, that (i) the Agency Certificate shall specify the maturities, the principal amounts of each maturity, and the Series of Bonds to be redeemed (including any credits against sinking fund installments on any Term Bonds to be redeemed) and (ii) in the case of any selection method of Bonds for an optional or special redemption different from the selection method assumed in the most recently filed Cash Flow Certificate, the Agency shall file an updated Cash Flow Certificate with the Trustee.

The Agency may establish temporary subaccounts within an Acquisition Account for the collection and custody of fees paid by Lenders or other persons in connection with the reservation of funds in the Acquisition Account for use in Financing Program Obligations to be originated by such Lenders or other persons. To the extent that the Agency's agreements with such Lenders or other persons provide for the refund of any such fees (or portions thereof), amounts may be withdrawn from any such subaccount or the Acquisition Account in accordance with such agreements, and any amounts not required to be so applied may, pursuant to an Agency Certificate, be applied to any other purpose of the Acquisition Account as provided in the Bond Resolution.

Revenue Fund

The Agency shall cause all Revenues to be deposited promptly with a Depository and to be transmitted regularly to the Trustee. Unless otherwise provided in the Bond Resolution, all such amounts shall be deposited in the Revenue Fund. There shall also be deposited in the Revenue Fund any other amounts required to be deposited therein pursuant to the Bond Resolution or the Series Resolution or other resolution of the Agency.

The Trustee shall withdraw from any money in the Revenue Fund and credit to each of the following Funds and Accounts, or pay to the Person specified, the amount indicated in the following tabulation, at the times indicated in the following tabulation:

- (1) on or before the applicable Interest Payment Date, to the Bond Fund Interest Account the amount needed, taking into account any balance then on deposit therein, to increase the balance therein to the Interest Requirement;
- (2) on or before the applicable Principal Installment Date, to the Bond Fund Principal Account the amount, needed, taking into account any balance then on deposit therein, to increase the amount therein to the Principal Requirement;
- (3) on any date, assuming any prior transfers required pursuant to subsections (1) and (2) above have been made, to the Debt Service Reserve Fund, the amount, if any, needed to increase the amount therein to the Debt Service Reserve Requirement;
- (4) on any date, assuming any prior transfers required pursuant to subsections (1), (2) and (3) above have been made, to the Insurance Reserve Fund, the amount, if any, needed to increase the amount therein to the Insurance Reserve Requirement;
- (5) unless otherwise expressly provided in the Series Resolution in respect of a Series of Bonds to which the Swap Agreement relates in whole or in part, on or before the applicable due dates,

assuming any prior transfers required pursuant to subsections (1), (2), (3) and (4) above have been made, to any Swap Counterparty, the Agency Swap Payments due from time to time pursuant to a Swap Agreement; and

(6) to the extent not transferred pursuant to the preceding subsections, the balance shall be held in the Revenue Fund until and unless directed by Agency Certificate to be transferred and utilized as set forth elsewhere in this section.

At such periodic intervals as the Agency, by Agency Certificate, shall direct, the Trustee shall withdraw from the Revenue Fund and transfer to the United States of America such amounts as are necessary to comply with the Code, including particularly the arbitrage rebate requirements of Section 148 thereof.

Amounts credited to the Revenue Fund shall be transferred to the Bond Redemption Fund on or before the designated Redemption Date to be used for the purchase or redemption of Bonds pursuant to the Bond Resolution and the terms of any related Series Resolution upon the filing with the Trustee of (i) an Agency Certificate specifying the maturities, the principal amounts of each maturity, and the Series of Bonds to be redeemed (including any credits against sinking fund installments on any Term Bonds to be redeemed) and (ii) in the case of any selection method of Bonds for an optional or special redemption different from the selection method assumed in the most recently filed Cash Flow Certificate, a Cash Flow Certificate.

Amounts credited to the Revenue Fund may be transferred to an existing Acquisition Account or a new Acquisition Account to be established to be used to acquire Program Obligations upon filing with the Trustee of (i) an Agency Certificate specifying the amount to be so transferred and either specifying the existing Acquisition Account to which the funds are to be deposited or directing the establishment of a new Acquisition Account for the deposit of the funds and providing the information relating to the new Acquisition Account required by the Bond Resolution and (ii) a Cash Flow Certificate.

Amounts credited to the Revenue Fund, as directed by an Agency Certificate, shall be released to the Agency for the payment of Program Expenses or the establishment of reserves therefor in an amount needed or required to pay reasonable and necessary Program Expenses; provided that if the amount to be released exceeds the amount assumed in the most recently filed Cash Flow Certificate, the Agency shall file a new Cash Flow Certificate with the Trustee.

Amounts credited to the Revenue Fund, except Program Expenses, may be released to the Agency free and clear of the lien of the Bond Resolution, for deposit in the Agency's General Reserve Account or deposit in the Alternative Loan Fund, upon the filing with the Trustee of (i) an Agency Certificate directing the same, (ii) a Cash Flow Certificate and (iii) a Parity Certificate.

Any investment earnings on moneys held in the Revenue Fund shall be retained therein.

Bond Fund Interest Account and Bond Fund Principal Account

The Trustee shall withdraw from the Bond Fund Interest Account, on or immediately prior to each Interest Payment Date of the Bonds, an amount equal to the unpaid interest due on the Bonds on such Interest Payment Date, and shall cause the same to be applied to the payment of said interest when due and is authorized to transmit the same to any Paying Agents who shall apply the same to such payment.

If the withdrawals required with respect to the same and every prior date shall have been made, the Trustee shall withdraw from the Bond Fund Principal Account, on or immediately prior to each Principal Installment Date, an amount equal to the principal amount of the Outstanding Bonds, if any, maturing on or before said Principal Installment Date and shall cause the same to be applied to the payment of the principal amount of said Bonds when due and is authorized to transmit the same to any Paying Agents who shall apply the same to such payment.

Any amount at any time held in the Bond Fund Interest Account or Bond Fund Principal Account in excess of the Interest Requirement or Principal Requirement may be transferred by the Trustee to the Revenue Fund, if so directed by Agency Certificate, and otherwise shall be retained in the Bond Fund Interest Account or Bond Fund Principal Account, as the case may be.

The interest earned or other income derived from the investment of moneys in the Bond Fund Interest Account and Bond Fund Principal Account shall be transferred by the Trustee to the Revenue Fund (unless the Trustee is directed by Agency Certificate to retain such amounts in the Bond Fund Interest Account or Bond Fund Principal Account, as the case may be).

Bond Redemption Fund

Subject to the provisions of the respective Series of Bonds and to the provisions of the respective Series Resolutions authorizing the issuance thereof, all amounts deposited in the Bond Redemption Fund shall be applied to the purchase or redemption of Bonds, including payment of any redemption premium, on the applicable Redemption Date; provided, however, that in the event the Agency has issued refunding obligations for the purpose of redeeming Bonds of a Series in accordance with the Bond Resolution, upon receipt of an Agency Certificate directing such transfer and confirmation by the Trustee that provisions have been made for wiring proceeds of such refunding obligations to the Trustee, the Trustee, immediately on the date of such confirmation, shall transfer moneys in the Bond Redemption Fund in an amount equal to the amount of refunding proceeds received by the Trustee to the funds or accounts specified in the refunding resolution as specified in the Agency Certificate. The Redemption Price of Bonds subject to redemption by operation of the Bond Redemption Fund in the Bond Fund shall be the price set forth in the applicable Series Resolution. Upon receipt of an Agency Certificate directing the same, the Trustee shall transfer at the time of purchase or no more than 45 calendar days prior to such redemption to the Bond Redemption Fund in the Bond Fund from the Debt Service Reserve Fund or Insurance Reserve Fund the amount stated in such Request, which amount shall be no greater than the amount by which the Debt Service Reserve Requirement or Insurance Reserve Requirement will decrease due to the purchase or redemption of Bonds. Subject to the provisions of the Bond Resolution or of any Series Resolution authorizing the issuance of Bonds, requiring the application thereof to the purchase or redemption of any particular Bonds, the Trustee shall apply any amounts deposited in the Bond Redemption Fund to the purchase or redemption of Bonds at the times and in the manner provided in the Bond Resolution. Amounts on deposit in the Bond Redemption Fund for the payment, purchase or redemption of any particular Bonds in accordance with the provisions of any Series Resolution authorizing the issuance of Refunding Bonds shall be segregated and shall be identified as such on the records of the Trustee.

Any earnings derived from the investment of amounts deposited in the Bond Redemption Fund pursuant to the issuance and delivery of Refunding Bonds, to the extent required to provide amounts sufficient for the payment or redemption of Bonds in accordance with the conditions for issuance of Refunding Bonds set forth in the Resolution, be deposited in the Bond Redemption Fund. All other interest earned or other income derived from the investment or deposit or moneys in each Bond Redemption Fund in the Bond Fund shall be transferred by the Trustee upon receipt thereof to the Revenue Fund.

Debt Service Reserve Fund

There shall be deposited in the Debt Service Reserve Fund all amounts required to be deposited therein by the Bond Resolution or any Series Resolution and any other amounts available therefor and determined by the Agency to be deposited therein.

If on any Bond Payment Date the amount in the Bond Fund Interest Account, Bond Fund Principal Account or Bond Redemption Fund, as appropriate, shall be less than the amount required for the payment of the Principal Installments and interest due on the Outstanding Bonds on such date, the Trustee shall apply amounts from the Debt Service Reserve Fund to the extent required pursuant to the Bond Resolution.

If, concurrently with any allocation from the Revenue Fund pursuant to the Bond Resolution, or, on any date upon which a Series Resolution shall be delivered to the Trustee, the amount on deposit in the Debt Service Reserve Fund shall be in excess of the Debt Service Reserve Requirement, the Trustee shall, if so directed in writing pursuant to an Agency Certificate, (1) transfer the amount of such excess which is Revenues to any one or more of the Acquisition Accounts, the Bond Fund Interest Account, the Bond Fund Principal Account, the Bond Redemption Fund or the Revenue Fund as so directed and (2) transfer the amount of such excess which is sale proceeds, investment proceeds or transferred proceeds of Bonds to any one or more of the Acquisition Accounts or the Bond Redemption Fund.

Subject to any limitation provided in the Act, a Series Resolution may provide that the Debt Service Reserve Requirement may be funded through Cash Equivalents. For purposes of determining whether such Requirement has been met, the amount in the Debt Service Reserve Fund so funded shall be deemed to include any amount payable under such Cash Equivalents on the demand of the Trustee.

Any earnings derived from the investment of amounts deposited in the Debt Service Reserve Fund shall, to the extent the balance therein is less than the Debt Service Reserve Requirement, be retained in the Debt Service Reserve Fund and otherwise shall be transferred by the Trustee upon receipt thereof to the Revenue Fund.

In order better to secure the Bonds and to make them more marketable and to maintain in the Debt Service Reserve Fund an amount equal to the Debt Service Reserve Requirement, and in accordance with the provisions of Section 22, Subdivision 3 of the Act, the Agency shall cause the Chair annually, on or before December 1 of each year, to make and deliver to the Governor of the State the Chair's certificate stating the sum, if any, that is necessary to restore the Debt Service Reserve Fund to an amount equal to the Debt Service Reserve Requirement. All money received by the Agency from the State in accordance with the provisions of Section 22, Subdivision 3 of the Act pursuant to any such certification shall be paid to the Trustee for deposit in and credit to the Debt Service Reserve Fund.

Notwithstanding the provisions of the foregoing paragraph, prior to causing the Chair to execute and deliver the certificate specified therein, the Agency shall first transfer to the Debt Service Reserve Fund from the Alternative Loan Fund such amount as may be available therein to reduce or eliminate, if possible, the deficiency in the Debt Service Reserve Fund.

Insurance Reserve Fund

The Insurance Reserve Requirement, if any, received by the Trustee upon the issuance of a Series of Bonds shall be held in the Insurance Reserve Fund and used for the purpose of paying that portion of the claim for loss with respect to any Program Loan in default, made or purchased from an Acquisition Account, which is not paid by any public or private insuring agency. The Agency shall promptly furnish to the Trustee an Agency Certificate stating the amount of the loss, when determinable, and the Trustee shall forthwith transfer this amount to the extent available from the Insurance Reserve Fund to the Revenue Fund.

If on any Bond Payment Date the amount in the Bond Fund Interest Account, Bond Fund Principal Account or Bond Redemption Fund, as appropriate, shall be less than the amount required for the payment of the Principal Installments and interest due on the Outstanding Bonds on such date, the Trustee shall apply amounts from the Insurance Reserve Fund to the extent required pursuant to the Bond Resolution.

If, concurrently with any allocation from the Revenue Fund pursuant to the Bond Resolution, or, on any date upon which a Series Resolution shall be delivered to the Trustee, the amount on deposit in the Insurance Reserve Fund shall be in excess of the Insurance Reserve Requirement, the Trustee shall, if so directed in writing pursuant to an Agency Certificate, (1) transfer the amount of such excess which is Revenues to any one or more of the Acquisition Accounts, the Bond Fund Interest Account, the Bond Fund Principal Account, the Bond Redemption Fund or the Revenue Fund as so directed and (2) transfer the amount of such excess which is sale proceeds, investment proceeds or transferred proceeds of Bonds to any one or more of the Acquisition Accounts or the Bond Redemption Fund.

Subject to any limitation provided in the Act, a Series Resolution may provide that the Insurance Reserve Requirement may be funded through Cash Equivalents. For purposes of determining whether such Requirement has been met, the amount in the Insurance Reserve Fund so funded shall be deemed to include any amount payable under such Cash Equivalents on the demand of the Trustee.

Any earnings derived from the investment of amounts deposited in the Insurance Reserve Fund shall, to the extent the balance therein is less than the Insurance Reserve Requirement, be retained in the Insurance Reserve Fund and otherwise shall be transferred by the Trustee upon receipt thereof to the Revenue Fund.

Alternative Loan Fund

The Trustee shall maintain the Alternative Loan Fund created within the Bond Resolution and shall deposit therein any amounts authorized by an Agency Certificate to be withdrawn from the Revenue Fund in accordance with the Resolution and any other amounts provided by the Agency for deposit therein. Amounts on deposit in the Alternative Loan Fund shall be free and clear of any lien or pledge created by the Bond Resolution, and free and clear of any restrictions on the investment of funds set forth in the Bond Resolution. Amounts deposited into the Alternative Loan Fund may be used for any lawful purpose for which the Agency may from time to time use funds on deposit in its General Reserve Account and, pending such use, may be invested in any securities or investments permissible generally for the investment of funds of the Agency as specified by Agency Certificate. By Agency Certificate furnished to the Trustee, the Agency may at any time appropriate any funds and investments on deposit in the Alternative Loan Fund to any Account or Fund created pursuant to the Bond Resolution (in which case such funds and investments shall become subject to the lien and pledge thereof) or may direct that such funds and investments be transferred to the Agency's General Reserve Account or to any other fund or account established pursuant to resolution of the Agency.

The Agency, by Agency Certificate, may request the Trustee to establish one or more subaccounts in the Alternative Loan Fund to be restricted to such uses, and used in accordance with such terms, as are specified in the Agency Certificate.

Any earnings derived from the investment of amounts deposited in the Alternative Loan Fund shall be retained therein unless otherwise directed by Agency Certificate.

Investment of Moneys Held by the Trustee

Moneys held by the Trustee for the credit of any Account or Fund established under the Bond Resolution shall be invested by the Trustee as directed by the Agency to the fullest extent practicable and reasonable in Investment Obligations which shall mature or be redeemable at the option of the Owner prior to the respective dates when the moneys held for the credit of such Fund or Account will be required for the purposes intended. Unless otherwise confirmed in writing, an account statement delivered by the Trustee to the Agency shall be deemed written confirmation by the Agency that investment transactions identified therein accurately reflect the investment directions given to the Trustee pursuant to the terms of the Bond Resolution, unless the Agency notifies the Trustee in writing to the contrary within forty five (45) days of the date of such settlement.

The Investment Obligations purchased shall be held by the Trustee and shall be deemed at all times to be part of such Fund or Account or combination thereof, and the Trustee shall inform the Agency of the detail of all such investments. The Trustee shall sell at the best price obtainable, or present for redemption, any Investment Obligations purchased by it as an investment whenever it shall be necessary to provide moneys to meet any payment from a Fund or Account. The Trustee shall not be liable for any depreciation of the value of any investment on the redemption, sale and maturity thereof, and in the absence of any direction from the Agency, the Trustee shall not be required to invest such funds.

The Trustee may purchase from or sell to itself or an affiliate, as principal or agent, any Investment Obligations. The Trustee shall advise the Agency in writing monthly, unless otherwise directed by Agency Certificate, of all investments held for the credit of each Fund and Account in its custody under the provisions of the Bond Resolution as of the end of the preceding month.

In computing the amount in any Fund or Account, Investment Obligations shall be valued at par or, if purchased at a price other than par, at their Amortized Value, in either event exclusive of accrued interest purchased.

Except as otherwise specifically provided in the Bond Resolution or in a Series Resolution, the income or interest earned, or gain, shall be transferred by the Trustee upon receipt thereof to the appropriate Revenue Account.

The Trustee shall not be liable or responsible for the making of any investment authorized by the Bond Resolution in the manner provided in the Bond Resolution or for any loss resulting from any such investment so made, except for its own negligence.

Program Loans; Modification of Terms

The Agency may consent to the modification of the security for, or any terms or provisions of, one or more Program Loans but only if (1) the Agency reasonably determines that the modification will not be materially adverse to the security or other interests of Owners of Outstanding Bonds, and (2) the modification does not impair any contract of insurance or guaranty of the Program Loan.

Any such modifications shall be reflected in the next Cash Flow Certificate which the Agency is required to prepare and provide to the Trustee pursuant to the provisions of the Bond Resolution; provided, however, that if the cumulative effect of such modifications not reflected in a Cash Flow Certificate previously delivered to the Trustee would reduce estimated Revenues from the Program Loans so modified by more than \$500,000 in the current or any future Fiscal Year, then the Agency may not consent to such modifications until it has delivered a Cash Flow Certificate to the Trustee reflecting such modifications.

Sale of Program Obligations

The Agency may at any time sell, assign or otherwise dispose of a Program Obligation (or the premises to which such Program Obligation is related):

(i) in the event that payment under such Program Loan is delinquent more than 90 calendar days or, at any time, in order to realize the benefits of insurance with respect to such Program Obligation or property;

(ii) in order to obtain funds to provide for the redemption (whether optional or special, to the extent permitted by the terms of any applicable Series Resolution) or purchase of an amount of Bonds having a value corresponding to the value of such Program Obligation as reasonably estimated by the Agency; or

(iii) in the event that a Certificate of the Agency shall be filed with the Trustee, and each Rating Agency, which gives effect to the proposed sale thereof and states that such sale, assignment, transfer or other disposition would not have a material adverse effect on the ability of the Agency to pay the Debt Service on the Outstanding Bonds when and as due and payable and reasonable and necessary Program Expenses.

Cash Flow Certificates

The Agency is required to file a Cash Flow Certificate (i) at least once within any 12-month period and (ii) at such other times as may be required pursuant to the provisions of the Bond Resolution or of any Series Resolution authorizing the issuance of Bonds of a Series then Outstanding.

Creation of Liens

The Agency shall not issue any bonds or other evidences of indebtedness, other than the Bonds, secured by a pledge of Revenues or of the moneys, securities, rights and interests pledged or held or set aside by the Agency or by any Fiduciary under the Bond Resolution and shall not create or cause to be created any lien or charge on any pledged Revenues or such moneys, securities, rights or interests: provided, however, that nothing in the Bond Resolution shall prevent the Agency from issuing (i) evidences of indebtedness secured by a pledge of Revenues to be derived after any pledge of Revenues provided in the Bond Resolution shall be discharged and satisfied as provided in the Bond Resolution, or (ii) notes or bonds of the Agency not secured under the Bond Resolution; and provided, further, that, to secure its obligation to make Agency Swap Payments to a Swap Counterparty pursuant to a Swap Agreement, the Agency may grant to the Swap Counterparty a subordinate and junior pledge and security interest (subordinate and junior to the pledge and security interest granted to the Bondowners) in all or any of the collateral pledged to the payment of the Bonds under the Bond Resolution.

Defeasance of Bonds

Bonds or interest installments for the payment or redemption of which moneys shall have been set aside and shall be held in trust by the Trustee or any one or more of the alternate Paying Agents (through deposit by the Agency of moneys for such payment or redemption or otherwise) at the maturity or Redemption Date thereof shall

be deemed to have been paid within the meaning and with the effect expressed in the Bond Resolution. All Outstanding Bonds of any Series shall be deemed prior to the maturity or Redemption Date thereof to have been paid within the meaning and with the effect expressed in the Bond Resolution if (i) in case any of said Bonds are to be redeemed on any date prior to their maturity, the Agency shall have given to the Trustee in form satisfactory to it irrevocable instructions to mail notice of redemption of such Bonds on said date; (ii) there shall have been deposited with the Trustee either moneys in an amount sufficient, or Government Obligations the principal of and the interest on which when due will provide moneys in an amount that, together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient to pay when due the principal or Redemption Price of and interest due and to become due on said Bonds on and prior to the Redemption Date or maturity date thereof, as the case may be. Neither Government Obligations nor moneys deposited with the Trustee pursuant to this section nor principal or interest payments on any such Government Obligations shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal or Redemption Price, if applicable, of and interest on said Bonds.

Events of Default

Each of the following events shall constitute an event of default under the Bond Resolution: (1) the Agency shall fail to pay any Principal Installment or the Redemption Price of any Bond when and as the same shall become due and payable, whether at maturity or by call for redemption or otherwise, or shall fail to pay the purchase price of any Bond tendered or deemed tendered for purchase on the date established therefor; or (2) the Agency shall fail to pay any installment of interest on any Bond when and as the same shall become due and payable; or (3) the Agency shall fail to perform or observe any other covenant, agreement or condition on its part contained in the Bond Resolution or in the Bonds, and such failure shall continue for a period of 60 days after written notice thereof to the Agency by the Trustee or to the Agency and to the Trustee by the Bondowners of not less than a majority in principal amount of the Bonds Outstanding; or (4) the Agency shall file a petition seeking a composition of indebtedness under the Federal bankruptcy laws, or under any other applicable law or statute of the United States of America or of the State; or (5) the State limits or alters the rights of the Agency pursuant to the Act, as in force on the date of adoption of the Bond Resolution, to fulfill the terms of any agreements made with the Owners of the Bonds or in any way impaired the rights and remedies of Owners of Bonds while any Bonds are Outstanding.

Acceleration; Annulment of Acceleration

Upon the occurrence of an Event of Default, the Trustee may and, upon the written request of the Bondowners of not less than 25% in aggregate principal amount of Bonds Outstanding shall, give 30 days' notice in writing to the Agency of its intention to declare all Bonds Outstanding immediately due and payable; provided, however, that the Trustee may not make any such declaration with respect to an Event of Default under item (3) above unless (1) the Trustee has received a written request to do so from 100% of the Owners of all Outstanding Bonds or (2) there are sufficient moneys available in the Funds and Accounts to pay the principal and interest on the Bonds upon such declaration. At the end of such 30-day period the Trustee may, and upon such written request of Bondowners of not less than 25% in aggregate principal amount of Bonds Outstanding shall, by notice in writing to the Agency, declare all Bonds Outstanding immediately due and payable and such Bonds shall become and be immediately due and payable, anything in the Bonds or in the Bond Resolution to the contrary notwithstanding. In such event, there shall be due and payable on the Bonds an amount equal to the total principal amount of all such Bonds, plus all interest accrued thereon and which will accrue thereon to the date of payment.

At any time after the principal of the Bonds shall have been so declared to be due and payable and before the entry of final judgment or decree in any suit, action or proceeding instituted on account of such default, or before the completion of the enforcement of any other remedy under the Bond Resolution, the Trustee may annul such declaration and its consequences with respect to any Bonds not then due by their terms if (1) moneys shall have been deposited in the Bond Fund sufficient to pay all matured installments of interest and principal or Redemption Price or purchase price (other than principal then due only because of such declaration) of all Outstanding Bonds; (2) moneys shall have been deposited with the Trustee sufficient to pay the charges, compensation, expenses, disbursements, advances and liabilities of the Trustee and any Paying Agents; (3) all other amounts then payable by the Agency under the Bond Resolution shall have been paid or a sum sufficient to pay the same shall have been deposited with the Trustee; and (4) every Event of Default known to the Trustee (other than a default in the payment of the principal of such Bonds then due only because of such declaration) shall have been remedied to the satisfaction of the Trustee. No such annulment shall extend to or affect any subsequent Default or impair any right consequent thereon.

If the Agency shall fail to pay any Principal Installment, the Redemption Price, the purchase price or any installment of interest on any Bond when and as the same shall become due and payable, the Trustee shall, within 30 days, give written notice thereof by first class mail to the Bondowners, shown by the registry of Bondowners required to be maintained at the office of the Trustee.

Additional Remedies and Enforcement of Remedies

Upon the occurrence and continuance of any Event of Default, the Trustee may, and upon the written request of the Bondowners of not less than a majority in aggregate principal amount of the Bonds Outstanding, together with indemnification of the Trustee to its satisfaction therefor, shall, proceed forthwith to protect and enforce its rights and the rights of the Bondowners under the Act, the Bonds and the Bond Resolution by such suits, actions or proceedings as the Trustee, being advised by counsel, shall deem expedient, including but not limited to: (1) suit upon all or any part of the Bonds; (2) suit to require the Agency to account as if it were the trustee of an express trust for the Bondowners; (3) suit to enjoin any acts or things which may be unlawful or in violation of the rights of the Bondowners; (4) enforcement of any other right of the Bondowners conferred by law or by the Bond Resolution; and (5) in the event that all Bonds are declared due and payable, by selling Program Obligations.

Regardless of the happening of an Event of Default, the Trustee, if requested in writing by the Bondowners of not less than a majority in aggregate principal amount of the Bonds then Outstanding, shall, upon being indemnified to its satisfaction therefor, institute and maintain such suits and proceedings as it may be advised shall be necessary or expedient (i) to prevent any impairment of the security under the Bond Resolution by any acts which may be unlawful or in violation of the Bond Resolution, or (ii) to preserve or protect the interests of the Bondowners, provided that such request is in accordance with law and the provisions of the Bond Resolution.

Amendments

Amendments of the Resolutions may be made by a Supplemental Resolution.

Supplemental Resolutions may become effective upon filing with the Trustee if they add limitations and restrictions in addition to the limitations and restrictions contained in the Bond Resolution or Series Resolution, add covenants and agreements of the Agency in the Bond Resolution or Series Resolution that are not contrary to or inconsistent with the Bond Resolution or the applicable Series Resolution in effect at the time, add limitations and restrictions to be observed by the Agency, surrender any right, power or privilege reserved to or conferred upon the Agency or are reasonably necessary to preserve the tax exemption of Outstanding Bonds or permit the issuance of additional tax exempt Bonds.

Supplemental Resolutions become effective upon consent of the Trustee for the following purposes:

(1) To cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in the Bond Resolution or any Series Resolution;

(2) To insert such provisions clarifying matters or questions arising under the Bond Resolution or any Series Resolution as are necessary or desirable and are not contrary to or inconsistent with the Bond Resolution or the applicable Series Resolution theretofore in effect;

(3) To waive any right reserved to the Agency, provided that the loss of such right shall not adversely impair any Revenues available to pay the Outstanding Bonds of any Series; and

(4) To make any other change as shall not be, in the opinion of the Trustee, materially adverse to the security or other interests of the Bondowners. With respect to the foregoing, the Trustee may rely upon the opinion of the Rating Agency with respect to whether the Rating of the Bonds has been adversely affected as conclusively establishing whether the change is materially adverse to the security or other interests of the Bondowners.

Other Supplemental Resolutions may become effective only with consent (i) of the Bondowners of at least a majority in principal amount of the Bonds Outstanding at the time such consent is given and (ii) in case less than all of the several Series of Bonds then Outstanding are affected by the modification or amendment, of the Bondowners of at least a majority in principal amount of the Bonds of each Series so affected and Outstanding at the time such consent is given.

However, no such modification or amendment shall permit a change in the terms of redemption or maturity of the principal of any Outstanding Bonds or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price or purchase price thereof or in the rate of interest thereon (except as otherwise provided in a Series Resolution) without the consent of the Bondowners of all such Bonds, or shall reduce the percentages or otherwise affect the classes of Bonds the consent of the Bondowners of which is required to effect any such modification or amendment or shall change or modify any of the rights or obligations of any Fiduciary without its written assent thereto.

Any amendment may be made with unanimous consent of the Bondowners, except that no amendment shall change any of the rights or obligations of any fiduciary without the consent of the Fiduciary.

APPENDIX E

MORTGAGE INSURANCE PROGRAMS AND STATE LAWS AFFECTING FORECLOSURES

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

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

Federal Housing Administration Single-Family Mortgage Insurance Programs

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

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

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

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

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

When any property to be conveyed to HUD has been damaged by fire, earthquake, flood or tornado, or, if the property has suffered damage because of failure of the mortgage holder to take action to inspect and preserve the property, it is generally required, as a condition to payment of an insurance claim, that such property be repaired by

the mortgage holder prior to such conveyance or assignment. For mortgages insured on or after April 19, 1992, if the property has been damaged during the mortgage holder's possession by events other than fire, flood, earthquake or tornado notwithstanding reasonable action by the mortgage holder, HUD may require the mortgage holder to repair the property prior to conveyance to HUD as a condition to payment of an insurance claim.

Veterans Administration Guaranty Program

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

Rural Development (RD) Insured Program

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

Private Mortgage Insurance Programs

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

affected. Both Fannie Mae and Freddie Mac require approval of private mortgage insurance companies before mortgages insured by those companies are eligible for purchase by them.

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

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

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

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

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

State Laws Affecting Foreclosures

Mortgage foreclosures in Minnesota are governed by statute and permit two alternative methods, "by action" or "by advertisement." The latter is normally utilized since it is slightly faster, less expensive, and does not have the same tendency to invite contest as does foreclosure by action. The process is normally initiated by the

publication, recordation and service of a notice of foreclosure. This notice must include all relevant information on the mortgage loan and the secured premises as well as a statement of the time and place of sale and the time allowed by law for redemption by the mortgagor. This notice must then be published in a legal newspaper each week for six consecutive weeks. Service of the notice on the mortgagor and any other affected party must be completed at least four weeks prior to the designated date of the foreclosure sale. Compliance with the above publication and service of notice requirements within the prescribed time limitations is essential to the validity of the mortgage foreclosure sale.

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

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

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

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

APPENDIX F

BOOK-ENTRY-ONLY SYSTEM

General

The Depository Trust Company, New York, New York (“DTC”), is to act as securities depository for each series of the Series Bonds. The ownership of one fully registered Series Bond of each series for each maturity in the aggregate principal amount of such maturity, will be registered in the name of Cede & Co., DTC’s partnership nominee. *So long as Cede & Co. or another nominee designated by DTC is the registered owner of the Series Bonds of a series, references herein to the Bondowners, Owners or registered owners of such Series Bonds shall mean Cede & Co. or such other nominee and shall not mean the Beneficial Owners(as hereinafter defined) of such Series Bonds.*

DTC is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of beneficial ownership interests in the Series Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series Bonds on DTC’s records. The ownership interest of each actual purchaser of each Series Bond (the “Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series Bonds, except in the event that use of the Book-Entry System for Series Bonds of the series is discontinued as described below.

To facilitate subsequent transfers, all Series Bonds deposited by Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Series Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers. For every transfer and exchange of beneficial ownership in the Series Bonds, the Beneficial Owner may be charged a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices will be sent to DTC. If less than all of the Series Bonds of a series and maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such Series Bonds of such series and maturity to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to any Series Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the bond issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payment of the principal and redemption price of and interest on the Series Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the bond issuer or trustee on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee or the Agency, subject to any statutory and regulatory requirements as may be in effect from time to time. Payment of principal, redemption price and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC), is the responsibility of the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

Under the 2012 Series Resolution, payments made by or on behalf of the Agency to DTC or its nominee shall satisfy the Agency's obligations to the extent of the payments so made.

The above information contained in this section "Book-Entry-Only System" is based solely on information provided by DTC. No representation is made by the Agency or the Underwriters as to the completeness or the accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.

The Agency, the Underwriters and the Trustee cannot and do not give any assurances that DTC, the Direct Participants or the Indirect Participants will distribute to the Beneficial Owners of the Series Bonds (i) payments of principal of or interest and premium, if any, on the Series Bonds, (ii) certificates representing an ownership interest or other confirmation of beneficial ownership interest in Series Bonds, or (iii) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Series Bonds, or that they will do so on a timely basis, or that DTC, Direct Participants or Indirect Participants will serve and act in the manner described in this Official Statement. The current "Rules" applicable to DTC are on file with the Securities Exchange Commission, and the current "Procedures" of DTC to be followed in dealing with Direct Participants are on file with DTC.

Neither the Agency, the Underwriters nor the Trustee will have any responsibility or obligation to any Direct Participant, Indirect Participant or any Beneficial Owner or any other person with respect to: (1) the Series Bonds; (2) the accuracy of any records maintained by DTC or any Direct Participant or Indirect Participant; (3) the payment by DTC or any Direct Participant or Indirect Participant of any amount due to any Beneficial Owner in respect of the principal or redemption price of, or interest on the Series Bonds; (4) the delivery by DTC or any Direct Participant or Indirect Participant of any notice to any Beneficial Owner which is required or permitted under the terms of the Resolutions to be given to Owners of Series Bonds; (5) the selection of the Beneficial Owners to receive payment in the event of any partial redemption of Series Bonds; or (6) any consent given or other action taken by DTC as a Bondowner.

Discontinuation of Book-Entry System

DTC may discontinue its book-entry services with respect to all or any series of the Series Bonds at any time by giving notice to the Agency and discharging its responsibilities with respect thereto under applicable law. Under such circumstances, such series of Series Bonds are required to be delivered as described in the 2012 Series Resolution. The Beneficial Owner, upon registration of such Series Bonds held in the Beneficial Owner's name, shall become the Bondowner.

The Agency may determine to discontinue the system of book entry transfers through DTC (or a successor securities depository) for all or any series of the Series Bonds. In such event, the Series Bonds of such series are to be delivered as described in the 2012 Series Resolution.

APPENDIX G

FORM OF OPINION OF BOND COUNSEL

April ____, 2012

Minnesota Housing Finance Agency
St. Paul, Minnesota 55101

Minnesota Housing Finance Agency
Residential Housing Finance Bonds
2012 Series A
2012 Series B
2012 Series C
2012 Series D

Ladies and Gentlemen:

We have acted as bond counsel to the Minnesota Housing Finance Agency (the "Agency") in connection with the authorization, issuance and delivery by the Agency of its Residential Housing Finance Bonds, 2012 Series A, in the aggregate principal amount of \$50,945,000 (the "2012 Series A Bonds"), its Residential Housing Finance Bonds, 2012 Series B, in the aggregate principal amount of \$8,830,000 (the "2012 Series B Bonds"), its Residential Housing Finance Bonds, 2012 Series C, in the aggregate principal amount of \$30,975,000 (the "2012 Series C Bonds"), and its Residential Housing Finance Bonds, 2012 Series D, in the aggregate principal amount of \$60,000,000 (the "2012 Series D Bonds" and, together with the 2012 Series A Bonds, the 2012 Series B Bonds and the 2012 Series C Bonds, the "2012 Series Bonds"), each series of which are issuable only as fully registered bonds of single maturities in denominations of \$5,000 or any integral multiple thereof.

The 2012 Series Bonds are dated, mature on the dates, bear interest at the rates and are payable as provided in the Series Resolution referenced below. The 2012 Series Bonds are subject to optional, mandatory and special redemption prior to maturity, including special redemption at par, as provided in the Series Resolution referenced below.

As bond counsel, we have examined certificates as to facts, estimates and circumstances and certified copies of resolutions and proceedings of the Agency and other documents we considered necessary as the basis for this opinion, including the Agency's Amended and Restated Bond Resolution adopted August 24, 1995, as amended and supplemented (the "Bond Resolution"), and the Series Resolution relating to the 2012 Series Bonds adopted March 22, 2012 (the "Series Resolution"). As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigation.

Applicable federal tax law, including certain provisions of Sections 143 and 148 of the Internal Revenue Code of 1986, as amended (the "Code"), establishes certain requirements which must be met subsequent to the delivery of the 2012 Series Bonds in order that interest on the 2012 Series Bonds may be excluded from gross income for federal income tax purposes. The Agency has covenanted in the Bond Resolution and Series Resolution to comply with the requirements of applicable federal tax law and for such purpose to adopt and maintain appropriate procedures. In rendering this opinion, we have assumed compliance by the Agency with and enforcement by the Agency of the provisions of the Bond Resolution and Series Resolution.

From such examination it is our opinion that, under state and federal laws, regulations, rulings and decisions in effect on the date hereof: (1) the Agency is a public body corporate and politic, having no taxing power, duly organized and existing under Minnesota Statutes, Chapter 462A, as amended; (2) the Bond Resolution and Series Resolution have been duly and validly adopted by the Agency and are valid and binding upon it in accordance with their terms, and create the valid pledge and security interest they purport to create with respect to the Program Obligations, Investment Obligations, Revenues, moneys and other assets held and to be set aside under the Bond Resolution and Series Resolution; (3) the 2012 Series Bonds are duly and lawfully authorized to be issued and are valid and binding general obligations of the Agency in accordance with their terms, entitled to the benefits granted by and secured by the covenants contained in the Bond Resolution and Series Resolution, and are further

secured by the pledge of the full faith and credit of the Agency, and are payable out of any of its moneys, assets or revenues, subject to the provisions of other resolutions or indentures now or hereafter pledging and appropriating particular moneys, assets, or revenues to other bonds or notes, or state laws appropriating particular funds for a specified purpose, but the State of Minnesota is not liable thereon and the 2012 Series Bonds are not a debt of the State; (4) in the Bond Resolution the Agency has created a Debt Service Reserve Fund for the security of the 2012 Series Bonds and other bonds issued or to be issued under the Bond Resolution, to be maintained in an amount specified therein, and has agreed to certify annually to the Governor the sum, if any, necessary to restore the Fund to this amount for inclusion in the next budget submitted to the Legislature, and the Legislature is legally authorized, but is not legally obligated, to appropriate such amount to the Fund; and (5) the interest payable on the 2012 Series Bonds is not includable in gross income of owners thereof for federal income tax purposes or in taxable net income of individuals, trusts and estates for State of Minnesota income tax purposes, but such interest is includable in the income of corporations and financial institutions for purposes of the Minnesota franchise tax.

Interest on the 2012 Series A Bonds will be treated as an item of tax preference in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations. Interest on the 2012 Series B Bonds, the 2012 Series C Bonds, and the 2012 Series D Bonds will not be treated as an item of tax preference in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations. Interest on the 2012 Series B Bonds and the 2012 Series C Bonds will be included in the calculation of adjusted current earnings for purposes of calculating the federal alternative minimum tax imposed on corporations and interest on the 2012 Series D Bonds will not be included in the calculation of adjusted current earnings for purposes of calculating the federal minimum alternative tax imposed on corporations. Interest on the 2012 Series B Bonds, the 2012 Series C Bonds and the 2012 Series D Bonds will not be treated as an item of tax preference for purposes of calculating the Minnesota alternative minimum tax imposed on individuals, trusts and estates. We express no opinion regarding other federal, state or local tax consequences arising from the ownership or disposition of the 2012 Series Bonds. All owners of 2012 Series Bonds (including, but not limited to, insurance companies, financial institutions, Subchapter S corporations, United States branches of foreign corporations and recipients of social security and railroad retirement benefits) should consult their tax advisors concerning other possible indirect tax consequences of owning and disposing of the 2012 Series Bonds.

The opinions expressed above are qualified only to the extent that the enforceability of the 2012 Series Bonds and the Bond Resolution and Series Resolution subject to bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable and that their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

Respectfully yours,

APPENDIX H

**CERTAIN INFORMATION RELATING TO THE
RHFB WHOLE LOAN MORTGAGE PORTFOLIO**

Mortgage Insurance for RHFB Whole Loan Mortgage Portfolio as of December 31, 2011

Series	FHA	VA	Rural Development	MGIC	Genworth	Other Private Mortgage Insurers*	Uninsured	Total
Retired	\$ 11,674,558	\$ 408,375	\$ 3,363,662	\$ 111,448	\$ 560,269	\$ 151,897	\$ 1,895,614	\$ 18,165,823
02AB	4,946,930	95,599	3,015,753	179,118	187,704	310,799	1,606,348	10,342,251
02AB-1	6,178,305	427,285	3,845,372	1,191,536	253,285	327,701	2,024,837	14,248,321
02EF	11,758,737	442,553	6,366,841	437,994	194,243	475,107	2,640,822	22,316,297
03AB	14,728,055	184,819	8,445,378	1,546,609	1,090,373	2,154,249	4,521,187	32,670,670
03IJ	9,509,024	548,736	6,277,907	757,518	557,000	2,389,420	2,428,335	22,467,940
04ABC	20,435,859	1,745,287	13,732,832	5,264,168	1,618,822	7,463,838	7,341,238	57,602,044
04EFG	10,433,097	1,275,940	15,889,007	11,365,241	1,638,360	2,949,043	8,779,185	52,329,873
05ABC	6,969,749	209,733	7,651,249	10,873,563	850,976	2,276,415	4,388,104	33,219,789
05GHI	10,360,466	407,505	16,823,018	13,369,232	1,796,751	4,755,927	8,261,294	55,774,193
05JKLM	24,712,228	1,349,832	24,624,226	15,072,035	3,338,790	11,485,530	14,732,079	95,314,720
05OP	10,794,840	277,749	10,085,544	5,860,267	1,518,754	7,332,326	8,142,684	44,012,164
06ABC	11,233,845	1,047,356	10,744,736	7,666,885	3,945,559	7,267,138	9,693,230	51,598,749
06FGH	8,708,610	680,252	12,509,255	5,153,590	3,015,851	8,529,850	7,474,930	46,072,338
06FGH-40 Year	-	-	-	956,136	115,055	3,111,798	995,736	5,178,725
06IJ	9,598,700	401,885	20,077,736	13,714,170	5,773,958	7,293,808	9,892,841	66,753,098
06IJ-40 Year	-	-	430,237	6,986,649	2,375,374	4,966,263	2,749,405	17,507,928
06LMN	2,432,205	324,399	7,006,505	10,377,198	6,028,841	3,526,498	4,331,729	34,027,375
06LMN-40 Year	-	-	-	3,522,751	1,706,193	1,547,432	1,335,486	8,111,862
07CDE	4,167,006	341,315	9,230,422	18,045,892	11,194,506	7,606,851	5,539,679	56,125,671
07CDE-40 Year	-	-	-	6,406,315	1,545,288	4,158,464	1,922,200	14,032,267
07HIJ	4,465,699	735,526	12,186,980	33,487,410	18,474,580	11,172,792	5,954,832	86,477,819
07HIJ-40 Year	-	-	-	10,470,217	3,360,743	3,807,559	3,429,004	21,067,523
07LM	8,317,769	875,893	13,142,357	30,594,671	21,798,143	16,103,268	7,367,677	98,199,778
07LM-40 Year	-	-	124,551	12,906,109	2,980,193	7,136,603	2,887,021	26,034,477
07PQRST	9,589,800	698,690	8,077,091	20,678,286	7,414,323	12,698,919	4,574,499	63,731,608
07PQRST-40 Year	-	-	-	8,792,567	3,421,957	2,503,715	1,417,523	16,135,762
08ABC	25,650,031	416,462	13,071,731	6,270,133	3,062,749	4,608,169	6,420,693	59,499,968
08ABC-40 Year	-	-	-	9,291,661	1,679,148	2,939,314	3,267,597	17,177,720
09ABC	37,216,428	830,942	12,170,619	5,271,233	1,910,761	4,105,499	5,571,232	67,076,714
09ABC-40 Year	-	-	123,499	4,764,284	363,090	2,980,167	3,059,938	11,290,978
09DEF	75,757,444	1,141,397	12,416,360	780,059	492,279	645,618	11,305,938	102,539,095
Total	\$ 339,639,385	\$ 14,867,530	\$ 251,432,868	\$ 282,164,945	\$ 114,263,918	\$ 158,781,977	\$ 165,952,917	\$ 1,327,103,540
	25.60%	1.12%	18.95%	21.26%	8.61%	11.96%	12.50%	100.00%
*Other Private Mortgage Insurers consists of: Republic 5.74%, United 2.79%, PMI 1.92%, Radian Guarantee Fund 0.66%, Commonwealth 0.55%, Triad 0.17%, Amerin 0.12%, GMAC 0.01%.								

**RHFB Whole Loan Mortgage Portfolio
Delinquency and Foreclosure Statistics as of December 31, 2011**

Bond Financed:	Number of Loans	Balance Outstanding	Payments Past Due as a Percentage of the Number of Loans Outstanding								
			30-59 Days		60-89 Days		90-119 Days		120 Days and Greater and Foreclosures ⁽¹⁾		Total ⁽²⁾
			#	%	#	%	#	%	#	%	%
Retired	474.0	\$18,165,823	39.0	8.23	14.0	2.95	4.0	0.84	24.0	5.06	8.86
02AB	148.0	10,342,251	11.0	7.43	4.0	2.70	4.0	2.70	7.0	4.73	10.14
02AB-1	170.0	14,248,321	8.0	4.71	4.0	2.35	4.0	2.35	8.0	4.71	9.41
02EF	322.0	22,316,297	31.0	9.63	7.0	2.17	5.0	1.55	15.0	4.66	8.39
03AB	390.5	32,670,670	22.0	5.63	7.0	1.79	11.0	2.82	12.0	3.07	7.68
03J	264.0	22,467,940	20.5	7.77	4.0	1.52	8.0	3.03	9.0	3.41	7.95
04ABC	827.5	57,602,044	50.0	6.04	17.5	2.11	9.0	1.09	44.0	5.32	8.52
04EFG	529.5	52,329,873	35.0	6.61	13.0	2.46	5.0	0.94	22.5	4.25	7.65
05ABC	317.0	33,219,789	23.0	7.26	10.0	3.15	2.0	0.63	24.5	7.73	11.51
05GHI	532.5	55,774,193	37.5	7.04	16.0	3.00	8.0	1.50	32.0	6.01	10.52
05JKLM	956.0	95,314,720	54.0	5.65	24.0	2.51	12.0	1.26	66.0	6.90	10.67
05OP	422.0	44,012,164	32.5	7.70	7.5	1.78	8.0	1.90	19.0	4.50	8.18
06ABC	476.0	51,598,749	29.0	6.09	15.5	3.26	9.0	1.89	26.5	5.57	10.71
06FGH	416.5	46,072,338	38.5	9.24	10.5	2.52	6.0	1.44	31.0	7.44	11.40
06FGH-40 Year	33.0	5,178,725	4.0	12.12	1.0	3.03	1.0	3.03	5.0	15.15	21.21
06IJ	660.5	66,753,098	38.0	5.75	16.5	2.50	10.5	1.59	36.5	5.53	9.61
06IJ-40 Year	111.0	17,507,928	6.0	5.41	4.0	3.60	2.0	1.80	12.0	10.81	16.22
06LMN	312.0	34,027,375	16.5	5.29	6.0	1.92	4.5	1.44	11.5	3.69	7.05
06LMN-40 Year	53.0	8,111,862	3.0	5.66	-	-	5.0	9.43	9.0	16.98	26.42
07CDE	475.5	56,125,671	30.0	6.31	10.0	2.10	7.0	1.47	24.0	5.05	8.62
07CDE-40 Year	94.0	14,032,267	13.0	13.83	4.0	4.26	1.0	1.06	5.0	5.32	10.64
07HIJ	676.0	86,477,819	52.0	7.69	15.5	2.29	7.0	1.04	41.5	6.14	9.47
07HIJ-40 Year	132.0	21,067,523	11.0	8.33	1.0	0.76	2.0	1.52	12.0	9.09	11.36
07LM	824.5	98,199,778	60.5	7.34	16.5	2.00	8.0	0.97	52.5	6.37	9.34
07LM-40 Year	171.0	26,034,477	8.0	4.68	8.0	4.68	5.0	2.92	17.0	9.94	17.54
07PQRST	518.5	63,731,608	25.0	4.82	14.0	2.70	10.5	2.03	36.5	7.04	11.76
07PQRST-40 Year	108.0	16,135,762	1.0	0.93	6.0	5.56	-	-	8.0	7.41	12.96
08ABC	534.0	59,499,968	32.0	5.99	11.0	2.06	4.0	0.75	19.0	3.56	6.37
08ABC-40 Year	121.0	17,177,720	3.0	2.48	2.0	1.65	2.0	1.65	8.0	6.61	9.92
09ABC	640.0	67,076,714	38.0	5.94	18.0	2.81	6.0	0.94	39.0	6.09	9.84
09ABC-40 Year	89.0	11,290,978	3.0	3.37	-	-	-	-	2.0	2.25	2.25
09DEF	1,380.5	102,539,095	76.5	5.54	41.0	2.97	16.5	1.20	60.5	4.38	8.55
Total Bond Financed	13,179.0	\$ 1,327,103,540	851.5	6.46	328.5	2.49	187.0	1.42	739.5	5.61	9.52

All Loans are serviced by US Bank Home Mortgage.

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

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

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

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

Comparative 60+ Day Delinquency Statistics⁽¹⁾	At 9/30/2011	At 12/31/2011
Residential Housing Finance Bond Resolution Loan Portfolio	5.78%	6.70%
Mortgage Bankers Association of America, Minnesota ⁽²⁾	2.84%	not yet available
Mortgage Bankers Association of America, National ⁽²⁾	4.60%	not yet available
Comparative Foreclosure Statistics⁽³⁾	At 9/30/2011	At 12/31/2011
Residential Housing Finance Bond Resolution Loan Portfolio	1.05%	1.23%
Mortgage Bankers Association of America, Minnesota ⁽²⁾	2.08%	not yet available
Mortgage Bankers Association of America, National ⁽²⁾	2.78%	not yet available
<p>(1) This table compares 60+ day delinquency statistics. The delinquency rates do not include those delinquent loans referred to an attorney, where the first legal documents have been filed, or where any further foreclosure proceedings have occurred. Thus, the percentage for the Residential Housing Finance Bond Resolution loan portfolio differs from that in the table on page H-2.</p>		
<p>(2) Mortgage Bankers Association of America average of 60+ days delinquency and foreclosure statistics adjusted by the Agency to reflect the proportions of insurance types in the Residential Housing Finance Bond Resolution loan portfolio. The unadjusted 9/30/11 Mortgage Bankers Association of America average 60+ days delinquency rate is 2.00% Minnesota and 3.26% national. The unadjusted 9/30/11 Mortgage Bankers Association of America foreclosure rate is 1.72% Minnesota and 2.65% national. None of the delinquency and foreclosure rates presented are seasonally adjusted. Reprinted by permission of the Mortgage Bankers Association. For more information, contact the Mortgage Bankers Association, 1331 L Street NW, Washington D.C. 20005, (202) 557-2700 http://www.mortgagebankers.org</p>		
<p>(3) This table compares foreclosure statistics, where "foreclosures" include only those loans referred to an attorney and with the first legal documents filed, but not loans for which a foreclosure sale has been held. Thus, the percentage for the Residential Housing Finance Bond Resolution loan portfolio is not directly comparable to the table on page H-2.</p>		

APPENDIX I
CERTAIN INFORMATION RELATING TO LIQUIDITY FACILITIES
FOR BONDS OUTSTANDING

as of December 31, 2011

(unaudited)

<u>Liquidity Provider</u>	<u>Related Bond Series</u>	<u>Bonds Outstanding</u>	<u>Expiration Date</u>
Lloyds TSB Bank	2003 Series B	\$ 25,000,000	7/23/2012
	2003 Series J	20,120,000	7/23/2012
	2004 Series G	35,500,000	7/23/2012
	2005 Series C	18,355,000	7/23/2012
	2005 Series I	29,415,000	7/23/2012
	2005 Series M	<u>43,210,000</u>	8/04/2012
		\$171,600,000	
State Street Bank and Trust Company	2006 Series C	\$ 23,620,000	3/21/2013
	2007 Series E	17,660,000	3/21/2013
	2007 Series J	28,150,000	3/21/2013
	2007 Series S	18,975,000	3/21/2013
	2007 Series T	<u>29,045,000</u>	3/21/2013
		\$117,450,000	
Federal Home Loan Bank of Des Moines	2008 Series C	\$ 40,000,000	8/07/2015
	2009 Series C	40,000,000	2/12/2016
	2009 Series F	<u>29,695,000</u>	12/1/2016
		\$109,695,000	

With respect to the liquidity facilities provided by Lloyds TSB Bank, which have expiration dates of July 23, 2012 and August 4, 2012, the Agency has undertaken inquiries and expects to substitute liquidity facilities from another provider as required by the applicable Series Resolution before the applicable expiration date.

APPENDIX J

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

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION MORTGAGE-BACKED SECURITIES

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

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

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

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

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

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

GNMA Security

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

Government National Mortgage Association Borrowing Authority

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

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

Servicing of the Mortgage Loans

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

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

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

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

Guaranty Agreement

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

Payment of Principal of and Interest on the GNMA Securities

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

FANNIE MAE MORTGAGE-BACKED SECURITIES

General

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

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

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

Fannie Mae

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

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

Mortgage-Backed Security Program

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

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

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

Pool Purchase Contract

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

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

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

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

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

Fannie Mae Securities

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

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

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

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

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

FREDDIE MAC MORTGAGE-BACKED SECURITIES

General

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

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

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

Freddie Mac

Freddie Mac is a shareholder-owned government-sponsored enterprise created on July 24, 1970 pursuant to the Federal Home Loan Mortgage Corporation Act, Title III of the Emergency Home Finance Act of 1970, as amended, 12 U.S.C. §§ 1451-1459 (the "Freddie Mac Act"). Freddie Mac's statutory mission is (i) to provide stability in the secondary market for residential mortgages; (ii) to respond appropriately to the private capital market; (iii) to provide ongoing assistance to the secondary market for residential mortgages (including activities relating to mortgages on housing for low- and moderate-income families involving a reasonable economic return

that may be less than the return earned on other activities); and (iv) to promote access to mortgage credit throughout the United States (including central cities, rural areas and underserved areas) by increasing the liquidity of mortgage financing. Neither the United States nor any agency or instrumentality of the United States is obligated, either directly or indirectly, to fund the mortgage purchase or financing activities of Freddie Mac or to guarantee Freddie Mac's securities or obligations.

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

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

Freddie Mac Guarantor Program

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

Freddie Mac Securities

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

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

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

than the payment date that occurs in the month by which the last monthly payment on the Freddie Mac Security is scheduled to be made.

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

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

Mortgage Purchase and Servicing Standards

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

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

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

THE MASTER SERVICER

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

THE FOLLOWING INFORMATION ABOUT THE MASTER SERVICER RELATES TO AND WAS SUPPLIED BY U.S. BANK NATIONAL ASSOCIATION. SUCH INFORMATION HAS NOT BEEN VERIFIED

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

As of December 31, 2011, the Master Servicer serviced 177,150 single-family mortgage revenue bond mortgage loans with an aggregate principal balance of approximately \$14.2 billion. The Master Servicer currently services single-family mortgage loans for state and local housing finance authorities, mutual savings banks, life insurance companies, savings and loan associations and commercial banks, as well as Fannie Mae, GNMA and Freddie Mac.

As of December 31, 2011, according to its unaudited quarterly financial statements, U.S. Bancorp had total assets of approximately \$340 billion and a net worth of \$34 billion. For the twelve months ended December 31, 2011, the Master Servicer, through its U.S. Bank Home Mortgage Division, originated and purchased single-family mortgage revenue bond mortgage loans in the total principal amount of approximately \$2.5 billion.

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

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

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