REMARKETING

This Official Statement has been prepared by the Minnesota Housing Finance Agency to provide information on the Remarketed Bonds. Selected information is presented on this cover page for the convenience of the user. To make an informed decision regarding the Remarketed 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.

$32,620,000
Minnesota Housing Finance Agency
$6,860,000 Residential Housing Finance Bonds, 2002 Series A-1 (Non-AMT)
$25,760,000 Residential Housing Finance Bonds, 2002 Series B-1 (AMT)

Original Issue Date of Remarketed Bonds: April 30, 2002 **Due: As shown on the inside front cover**
Remarketing Date: November 21, 2002

Tax Matters	Interest on the above-captioned bonds (the "Remarketed Bonds") is not includable in gross income for federal income tax purposes or in taxable net income of individuals, trusts and estates for Minnesota income tax purposes. See pages 26-27 herein for additional information, including information on the application of federal and state alternative minimum tax provisions to the Remarketed Bonds.
Redemption	The Remarketed Bonds are subject to optional redemption, to special redemption at par and to mandatory tender at par as set forth on pages 7-14 herein.
Security	On a parity with outstanding Bonds heretofore or hereafter issued under the Bond Resolution, by a pledge of Bond proceeds, Program Loans, Investments, Revenues and other assets held under the Bond Resolution. The Remarketed Bonds are general obligations of the Agency, payable out of any of its generally available moneys, assets or revenues. *The Agency has no taxing power. The State of Minnesota is not liable for the payment of the Remarketed Bonds and the Remarketed Bonds are not a debt of the State.* See "Security for the Bonds" on pages 14-16 herein.
Interest Payment Dates	January 1 and July 1, commencing January 1, 2003.
Denominations	$5,000 or any integral multiple thereof.
Closing/Settlement	November 21, 2002 through the facilities of DTC in New York, New York.
Bond Counsel	Dorsey & Whitney LLP, Minneapolis, Minnesota.
Remarketing Agents' Counsel	Kutak Rock LLP, Atlanta, Georgia.
Trustee	Wells Fargo Bank Minnesota, National Association, in Minneapolis, Minnesota.
Book-Entry-Only System	The Depository Trust Company. See Appendix F herein.

The Remarketed Bonds are reoffered, when, as and if remarketed, subject to withdrawal or modification of the offer without notice and to the opinion of Dorsey & Whitney LLP, Minneapolis, Minnesota, Bond Counsel, as to the validity of and tax exemption of interest on the Remarketed Bonds.

UBS PaineWebber Inc.

U.S. Bancorp Piper Jaffray Inc. **RBC Dain Rauscher Inc.**

Salomon Smith Barney

The date of this Official Statement is October 31, 2002.

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND PRICES*

2002 SERIES A-1 BONDS (Non-AMT)

Due	Principal Amount	Interest Rate	CUSIP
July 1, 2012	$ 420,000	4.20 %	60415NJJ2
July 1, 2013	780,000	4.30	60415NJK9
July 1, 2014	825,000	4.50	60415NJL7
July 1, 2015	865,000	4.60	60415NJM5

$3,970,000 4.90% Term Bonds Due July 1, 2019 (CUSIP 60415NJN3)

2002 SERIES B-1 BONDS (AMT)

Due	Principal Amount	Interest Rate	CUSIP	Due	Principal Amount	Interest Rate	CUSIP
July 1, 2004	$ 535,000	2.40 %	60415NJP8	July 1, 2009	$ 650,000	4.00 %	60415NJU7
July 1, 2005	550,000	2.80	60415NJQ6	July 1, 2010	680,000	4.20	60415NJV5
July 1, 2006	570,000	3.15	60415NJR4	July 1, 2011	715,000	4.30	60415NJW3
July 1, 2007	595,000	3.50	60415NJS2	January 1, 2012	320,000	4.40	60415NJX1
July 1, 2008	620,000	3.80	60415NJT0				

$6,965,000 3.65% Term Bonds Due July 1, 2023 (CUSIP 60415NJY9)
$5,870,000 5.35% Term Bonds Due January 1, 2033 (CUSIP 60415NJZ6)
$7,690,000 5.35% Term Bonds Due July 1, 2033 (CUSIP 60415NKA9)

Price of all Bonds —100%

* Maximum amount subject to remarketing. $1,165,000 principal amount of the 2002 Series A Bonds and $4,055,000 principal amount of the 2002 Series B Bonds were retained by the owners thereof, and are not being remarketed.

No dealer, broker, salesman or other person has been authorized by the Minnesota Housing Finance Agency or the Remarketing Agents 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 Remarketed 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.

The Remarketing Agents 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 Remarketing Agents do not guarantee the accuracy or completeness of the information.

In connection with this offering, the Remarketing Agents may over-allot or effect transactions which stabilize or maintain the market price of the Remarketed 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
$32,620,000
Minnesota Housing Finance Agency
Residential Housing Finance Bonds
2002 Series A-1 and 2002 Series B-1

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, 2002 Series A-1 (the "Series A-1 Bonds") and its Residential Housing Finance Bonds, 2002 Series B-1 (the "Series B-1 Bonds," and together with the Series A-1 Bonds, the "Remarketed Bonds"), in connection with the interest rate adjustment and the remarketing of the Remarketed Bonds by the Agency and for the information of all who may become initial holders of the Remarketed Bonds. The Remarketed Bonds were originally issued, together with $7,175,000 in additional principal amount of Residential Housing Finance Bonds, 2002 Series A, and $33,890,000 in additional principal amount of Residential Housing Finance Bonds, 2002 Series B (collectively, with the Remarketed Bonds, the "Series Bonds"), pursuant to the Act, a resolution of the Agency adopted as amended and restated on August 24, 1995, as further amended and supplemented (as so amended and supplemented, the "Bond Resolution"), and a series resolution of the Agency adopted on April 4, 2002 (the "Series Resolution"). The Remarketed Bonds are being remarketed pursuant to a resolution adopted on October 24, 2002 (the "Supplemental Series Resolution"). The Bond Resolution, the Series Resolution and the Supplemental Series Resolution are herein sometimes called the "Resolutions." The Residential Housing Finance Bonds now outstanding (in the aggregate principal amount of $478,230,000 as of September 30, 2002) under the Bond Resolution (the "Outstanding Bonds") and any additional Residential Housing Finance Bonds hereafter issued pursuant to the Bond Resolution, including the Remarketed Bonds, will be equally and ratably secured and are herein sometimes called the "Bonds."

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

INTRODUCTION

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

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

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

The Series Bonds were issued to provide money for the Agency to be used, along with certain contributed funds of the Agency, to continue its Program by purchasing Program Loans made by Lenders to low and moderate income persons for single family, owner occupied housing within the State by depositing certain amounts, if any, into the Debt Service Reserve Fund and by paying certain costs of issuance of the Series Bonds. On the date the Series Bonds were issued, proceeds of the Series Bonds in the amount of $73,451,411.84 were deposited in the Series A-B Acquisition Account to be used for the purchase of Program Loans. As of September 30, 2002, however, approximately $37,590,000 remained on deposit in the Series A-B Acquisition Account. See "Estimated Sources and Uses of Funds — Remarketed Bonds."

The Series Resolution provides that Series Bonds are subject to mandatory tender for purchase at any time that proceeds of the Series Bonds remain on deposit in the 2002 Series A-B Acquisition Account and the Agency determines that the rate of interest originally established for the Program Loans to be purchased from the proceeds of the Series Bonds is no longer reasonably competitive with the prevailing rate of interest on comparable loans available in the State without the assistance of the Agency. Before the Agency elects to call Series Bonds for mandatory tender it must conclude that the average interest rate on the tender bonds (selected in accordance with the Series Resolution) at the preliminary adjusted rates (as determined by the Remarketing Agents) is at least one-half of one percent (0.50%) per annum lower than the average interest rate on the tender bonds at their current rates of interest, and determine that Program Loans to be purchased by the Agency subsequent to the remarketing or exchange of the tender bonds can be originated at a rate of interest less than the prevailing rate of interest on comparable loans available in the State without the assistance of the Agency.

The Agency has determined that the conditions precedent to the mandatory tender and interest rate adjustment of a portion of the Series Bonds have been satisfied and has elected to call $32,620,000 of the Series Bonds for mandatory tender and interest rate adjustment, which constitute the Remarketed Bonds. As described in the Series Resolution, however, owners of the Remarketed Bonds called for mandatory tender may elect to retain all or a portion of their Remarketed Bonds at the adjusted rates. Owners of Remarketed Bonds called for mandatory tender and interest rate adjustment in an aggregate principal amount of $5,220,000 have elected to retain the Remarketed Bonds at the adjusted rates.

The Remarketed Bonds are secured on a parity with Bonds heretofore and hereafter issued under the Bond Resolution by a pledge of all Program Loans and Revenues held and received by the Agency pursuant to the Bond Resolution including Program Obligations funded by the Agency pursuant to the Bond Resolution including the Program Obligations funded by the Agency from the Acquisition Account and revenues received by the Agency in connection therewith. *While the Program Obligations intended to be acquired with the proceeds of the Remarketed Bonds will consist of first mortgage single family housing loans, under the Bond Resolution the Agency is authorized to acquire Program Obligations in connection with Housing, which would include single family loans, home improvement loans, multifamily loans and other housing related loans, and to secure such loans in such manner as the Agency determines, which would include first mortgage loans, subordinate mortgage loans or loans which are unsecured. To date, only single family housing loans and home improvement loans have been financed as Program Obligations under the Bond Resolution. The Agency does not currently anticipate that future series of Bonds issued under the Bond Resolution will finance Program Obligations other than single family loans or home improvement loans.* See "Security for the Bonds" and "Appendix D — Summary of Certain Provisions of the Bond Resolution."

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

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

The Agency has no taxing power. Neither the State of Minnesota nor any political subdivision thereof is or shall be obligated to pay the principal or redemption price of or interest on or purchase price with respect to the Remarketed 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 Commissioner of Trade and Economic Development, the State Auditor and five 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 the Act, the Vice Chairman of the Agency is the Commissioner of Trade and Economic Development.

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:

Michael Finch, Chairman — Term expires January 2006, Minneapolis, Minnesota - Research Program Director

Rebecca D. Yanisch, Vice Chair — *Ex-officio*, St. Paul, Minnesota - Commissioner of Trade and Economic Development

The Honorable *Judith Dutcher* — *Ex-officio*, St. Paul, Minnesota - State Auditor

Marge Anderson, Member — Term expires January 2004, Onamia, Minnesota

Peter G. Bernier, Member — Term expires January 2005, Squaw Lake, Minnesota

Lee Himle, Member — Term expires January 2003, Spring Valley, Minnesota - Insurance Agency Owner

Marina Muñoz Lyon, Member—Term expires January 2003, St. Paul, Minnesota - Foundation Officer.

Staff

The staff of the Agency presently consists of approximately 185 persons, including professional staff members who have responsibilities in the fields of finance, law, mortgage underwriting, architecture, construction inspection and housing management. The Attorney General of the State of Minnesota provides legal services for the Agency.

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

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

Katherine G. Hadley — Commissioner. Ms. Hadley was appointed Commissioner in July 1994, and reappointed in January 1999. From January 1992 to the date of her appointment as Commissioner, Ms. Hadley was Deputy Commissioner of the Agency. From October 1989 to January 1992, Ms. Hadley was the Director of Intergovernmental Affairs for the Agency. From September 1980 to October 1986, Ms. Hadley was a staff attorney at Southern Minnesota Regional Legal Services specializing in employment and family law. From October 1986 to October 1989, she was a staff attorney for the Legal Services Advocacy Project engaged in legislative advocacy on a variety of employment, public benefits, juvenile court, and housing issues. Ms. Hadley has a Bachelor of Arts degree from Hampshire College, Amherst, Massachusetts, and a law degree from the University of Minnesota.

Patricia Hippe — Deputy Commissioner. Ms. Hippe was appointed Deputy Commissioner effective May 4, 2000. From January 1995 to the date of her appointment, Ms. Hippe was Director of Finance of the Agency. From January 1994 to January 1995, Ms. Hippe was Assistant Vice President and Trust Officer with Norwest Bank Minnesota, National Association (now known as Wells Fargo Bank Minnesota, National Association) with responsibility for administration of taxable and tax-exempt bond issues primarily for student loan issuers. From January 1984 to January 1994, she held a variety of progressively more responsible positions with the HEAF Group, the most senior of which was Manager of Program Accounting with responsibility for student loan secondary market operations and accounting for multiple for-profit and non-profit entities. Ms. Hippe holds a Masters degree in Business Administration with a concentration in Accounting from the University of St. Thomas, St. Paul, Minnesota, a Bachelor of Science in Business Administration degree from the University of Minnesota and has successfully completed both the Certified Public Accountant and Certified Management Accountant exams.

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

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

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

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

Recent Legislation

The Minnesota legislature enacted several provisions during the 2002 legislative session to address a projected shortfall in the budget of the State of Minnesota for the biennium ending June 30, 2003. The provisions place certain limitations on the ability of State agencies, including the Agency, to enter into consulting contracts for professional and technical services and to hire any permanent or temporary employees prior to June 30, 2003. Procedures for requesting relief from the limitations have been established, and the Agency has requested and will continue to request relief under these procedures as needed. The Agency does not believe that these provisions will have a material adverse impact on the Agency.

Financial Statements of the Agency

The financial statements of Agency as of and for the years ended June 30, 2002 and 2001, included in this Official Statement as Appendix B, have been audited by Deloitte & Touche LLP, independent auditors, as stated in their report appearing herein.

For the first time, Agency financial statements 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. Since the format of the 2002 Financial Report has changed significantly from the Agency's traditional presentation of its prior annual financial reports, readers are encouraged to pay particular attention to the Management's Discussion and Analysis and Notes To Financial Statements.

The Agency has supplemented the information in the audited financial statements with information with respect to the General Reserve and the Residential Housing Finance Fund for the periods ended June 30, 2002 and June 30, 2001, which information is included in Appendix A. The information in Appendix A has been prepared by the Agency using information derived from the audited financial statements, and, in the opinion of the Agency, includes information necessary for a fair statement of the financial position and results of operations of those Funds for the periods. The information in Appendix A is not accompanied by a statement from the independent auditors.

Disclosure Information

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

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

In addition to the Agency Annual Report required by the Continuing Disclosure Agreement, the Agency also uses its best efforts to prepare a quarterly disclosure report for each of its single family bond resolutions and a semi-annual disclosure report for each of its multifamily bond resolutions. Recent reports are available at the Agency's website at http://www.mhfa.state.mn.us/investor/investor_home.htm. The Reports are also sent to the Repositories. The Residential Housing Finance Bond Resolution Disclosure Reports generally are filed quarterly. The most recent report is dated as of June 30, 2002. The Agency is also committed to providing appropriate credit information as requested by the rating agencies rating the securities.

Net Assets Restricted By Covenant and Operations to Date — General Reserve

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

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

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

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

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

	Fiscal Year Ended June 30,	
	2002	2001
Revenues and other additions to restricted net assets:		
Fees earned (1)	$ 6,881	$ 5,518
Interest earned on investments	1,398	2,489
Unrealized (loss) gain on investment securities, net	(173)	5,232
Administrative reimbursement from funds (2)(3)	20,488	17,614
	28,594	30,853
Expenses and other reductions to restricted net assets:		
Transfer of assets between funds (4)	10,366	13,169
Salaries and benefits	11,985	10,910
Other general operating	5,976	5,407
	28,327	29,486
Net changes in restricted net assets	267	1,367
Net assets restricted by covenant, beginning of year	36,289	34,922
Net assets restricted by covenant, end of year	$36,556	$36,289

(1) Fees earned consist primarily of fees collected in conjunction with HUD contract administration, the administration of the low income housing tax credit program and certain non-Agency financed Section 8 developments.
(2) Reimbursement from bond funds are transferred to the General Reserve in accordance with the Agency's Affordable Housing Plan at 60 basis points of adjusted assets. Adjusted assets are defined as total assets plus the reserve for loan loss plus unearned discounts on loans minus premiums on loans.
(3) Transfers from appropriated accounts consist of the portion of direct and indirect costs of administering the programs funded by the appropriations which are recovered from the interest earnings on appropriations.
(4) Earnings from bond funds may be transferred to the General Reserve to the extent permitted by any resolution or indenture securing bonds of the Agency. See the comments under the heading "Net Assets-Restricted by Covenant" in the notes to the financial statements in Appendix B for additional information.

State Appropriations

Over the years, the State Legislature has enacted several laws making amendments to the Act and appropriating funds to the Agency which are to be used for low interest loans, grants, programs for low and moderate income persons and families, innovative development, debt service and other housing related program costs. The State Legislature has appropriated funds to the Agency for its programs in every biennium since 1975. Over the past five years, appropriations to the Agency have totaled $317,643,000. Most of the appropriations have been expended or committed by the Agency. (See "The Agency — Recent Legislation.")

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

Agency Indebtedness

The principal amount of bonds and notes of the Agency which are outstanding at any time (excluding the principal amount of any bonds and notes refunded) is limited to $2,400,000,000. The following table lists the principal amounts of indebtedness, all of which are general obligations of the Agency, outstanding as of September 30, 2002:

	Number of Series*	Bonds Maturing*	Original Principal Amount (in thousands)	Principal Amount Outstanding (in thousands)
Housing Development Bonds	1	2002-2014	$ 44,240	$ 28,220
Rental Housing Bonds	18	2002-2033	374,480	230,135
Residential Housing Finance Bonds	13	2002-2036	505,670	478,230
Single Family Mortgage Bonds	96	2002-2033	1,861,615	1,207,985
Total Debt Outstanding			$2,786,005	$1,944,570

*Does not include the original principal amount of any series of bonds that have been, as of September 30, 2002, defeased or paid in full, whether at maturity or earlier redemption.

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

ESTIMATED SOURCES AND USES OF FUNDS — REMARKETED BONDS

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

Sources:	
Principal Amount of Remarketed Bonds	$ 27,400,000
Principal Amount of Retained Bonds	5,220,000
Agency Contribution	333,685
Total Sources of Funds	$ 32,953,685
Uses:	
Deposit to Acquisition Account	$ 32,620,000
Deposit to Costs of Issuance Account....................................	80,000
Remarketing Agents' Compensation	253,685
Total Uses of Funds	$ 32,953,685

Upon the original issuance of the Series Bonds, proceeds thereof were deposited in an Acquisition Account and the Debt Service Reserve Fund. The rate of interest originally established for the Program Loans intended to be purchased from the proceeds of the Series Bonds is no longer reasonably competitive with the prevailing rate of interest on comparable loans available in the State of Minnesota without the assistance of the Agency. The purpose of the remarketing is to permit unexpended proceeds of the Series Bonds on deposit in the Acquisition Account to be applied to the purchase of Program Loans at more competitive interest rates. Proceeds received from the remarketing of the Remarketed Bonds are to be used to purchase upon mandatory tender, subject to the election of the owners to retain their Remarketed Bonds, an equivalent principal amount of the Remarketed Bonds.

DESCRIPTION OF THE REMARKETED BONDS

General

The Remarketed Bonds were originally issued on April 30, 2002 and are being reoffered only as fully registered bonds and are 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 Remarketed Bonds. Wells Fargo Bank Minnesota, National Association, Minneapolis, Minnesota, is to serve as Trustee. Interest on the Remarketed 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 Remarketed Bonds is payable at maturity or earlier redemption upon surrender at the principal corporate trust office of the Trustee. See "Appendix F—Book-Entry-Only System."

The Remarketed Bonds of each series will be remarketed in denominations of $5,000 or any integral multiple thereof of single maturities. For every exchange or transfer of Remarketed 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 Remarketed Bonds of each series will be remarketed as Serial Bonds and Term Bonds, as the case may be, and mature on the dates and in the principal amounts set forth on the inside front cover hereof. The Remarketed Bonds shall bear interest at the adjusted interest rate from the date of remarketing, payable semiannually thereafter on January 1 and July 1 of each year, commencing January 1, 2003, at the respective annual interest rates set forth on the inside front cover hereof until payment of the principal of or redemption price on such Bonds. Interest on the Remarketed Bonds will be payable to the holder of record in the bond registration books maintained by the Trustee as of the 15th day of the month preceding the interest payment date, whether or not a business day.

Sinking Fund Redemption

The Series A-1 Bonds maturing on July 1, 2019 are subject to mandatory redemption in part on January 1, 2016 and on each July 1 and January 1 thereafter to and including January 1, 2019, at their principal amount plus accrued interest, without premium, from funds in the Sinking Fund Account, on the dates and in the principal amounts as follows:

Date	Principal Amount	Date	Principal Amount
January 1, 2016	$ 450,000	January 1, 2018	$ 500,000
July 1, 2016	460,000	July 1, 2018	515,000
January 1, 2017	475,000	January 1, 2019	530,000
July 1, 2017	490,000	July 1, 2019	550,000*

The Series B-1 Bonds maturing on July 1, 2023 are subject to mandatory redemption in part on January 1, 2020 and on each July 1 and January 1 thereafter to and including January 1, 2023, at their principal amount plus accrued interest, without premium, from funds in the Sinking Fund Account, on the dates and in the principal amounts as follows:

Date	Principal Amount	Date	Principal Amount
January 1, 2020	$ 840,000	January 1, 2022	$ 945,000
July 1, 2020	870,000	July 1, 2022	970,000
January 1, 2021	890,000	January 1, 2023	1,000,000
July 1, 2021	920,000	July 1, 2023	530,000*

The Series B-1 Bonds maturing on January 1, 2033 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, 2032, at their principal amount plus accrued interest, without premium, from funds in the Sinking Fund Account, on the dates and in the principal amounts as follows:

Date	Principal Amount	Date	Principal Amount
January 1, 2026	$ 365,000	January 1, 2030	$ 345,000
July 1, 2026	375,000	July 1, 2030	355,000
January 1, 2027	385,000	January 1, 2031	365,000
July 1, 2027	395,000	July 1, 2031	375,000
January 1, 2028	410,000	January 1, 2032	390,000
July 1, 2028	420,000	July 1, 2032	400,000
January 1, 2029	430,000	January 1, 2033	415,000*
July 1, 2029	445,000		

* Stated maturity.

The Series B-1 Bonds maturing on July 1, 2033 are subject to mandatory redemption in part on January 1, 2026 and on each July 1 and January 1 thereafter to and including January 1, 2033, at their principal amount plus accrued interest, without premium, from funds in the Sinking Fund Account, on the dates and in the principal amounts as follows:

Date	Principal Amount	Date	Principal Amount
January 1, 2026	$ 420,000	January 1, 2030	$ 400,000
July 1, 2026	435,000	July 1, 2030	410,000
January 1, 2027	445,000	January 1, 2031	425,000
July 1, 2027	455,000	July 1, 2031	435,000
January 1, 2028	470,000	January 1, 2032	445,000
July 1, 2028	485,000	July 1, 2032	460,000
January 1, 2029	500,000	January 1, 2033	475,000
July 1, 2029	515,000	July 1, 2033	915,000*

* Stated maturity.

Special Redemption

Non-Origination. The Remarketed Bonds are subject to special redemption, at the option of the Agency, prior to maturity, at any time, in whole or in part, at a redemption price equal to par plus accrued interest, without premium, from moneys representing proceeds allocable to the Remarketed Bonds not used to purchase Program Loans and transferred to the Bond Redemption Fund from the 2002 Series A-B Acquisition Account and any allocable amounts held in the Debt Service Reserve Fund transferred to the Bond Redemption Fund. In the event that any Remarketed Bonds are to be redeemed as a result of non-origination, such Bonds shall be selected at random within a series and maturity from such series and maturities of the Remarketed Bonds as shall be determined by the Agency.

Excess Revenues. Any moneys on deposit in the Revenue Fund attributable to Excess Revenues (excluding certain Tax Restricted Principal Payments as defined and described below) may, in the Agency's discretion and subject to the requirements of the Resolutions, be applied to the redemption, at any time, at a redemption price equal to par plus accrued interest, without premium, of Outstanding Bonds under the Bond Resolution (including the Remarketed Bonds but not the 2023 Remarketed Term Bonds (as defined below)) from such series, maturities and Sinking Fund Installments as the Agency may select at its option.

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

Prepayments. While any of the Remarketed Bonds remain Outstanding, certain moneys received from principal payments (including prepayments) allocable to the Remarketed Bonds (the "Remarketed Bond Tax Restricted Principal Payments") are to be used (i) to the extent necessary, to pay regularly scheduled payments on the Remarketed Bonds and (ii) to redeem Remarketed Bonds pursuant to Section 143(a)(2) of the Code at a price of par plus accrued interest, without premium, on redemption dates selected by the Agency. The following percentages of principal payments received between the effective dates listed below are required to be used for such payments or redemptions:

Effective Dates	Percentage of Principal Payment Tax Restricted
November 21, 2002 – November 21, 2004	58.25%
November 22, 2004 – May 6, 2007	76.89
May 7, 2007 – November 26, 2011	85.12
November 27, 2011 and thereafter	100.00

To the extent not needed to make regularly scheduled payments on the Remarketed Bonds, Remarketed Bond Tax Restricted Principal Payments received by or on behalf of the Agency shall first be applied to redeem the Series B-1 Bonds maturing July 1, 2023 (the "2023 Remarketed Term Bonds") in accordance with the following cumulative redemption schedule with respect to such 2023 Remarketed Term Bonds:

Date	Cumulative Amount†	Date	Cumulative Amount†
July 1, 2003	$ 60,000	January 1, 2007	$3,840,000
January 1, 2004	240,000	July 1, 2007	4,525,000
July 1, 2004	535,000	January 1, 2008	5,240,000
January 1, 2005	975,000	July 1, 2008	5,930,000
July 1, 2005	1,660,000	January 1, 2009	6,595,000
January 1, 2006	2,410,000	July 1, 2009	6,965,000
July 1, 2006	3,140,000		

†Based on an approximation of 100% TBMA prepayment experience and assuming the expected origination experience at the time of the initial issuance of the Series Bonds. Amounts actually to be redeemed pursuant to this provision will be reduced proportionately to the extent any of the 2023 Remarketed Term Bonds are redeemed from non-origination of proceeds allocable to the Remarketed Bonds.

Remarketed Bond Tax Restricted Principal Payments allocable to the Remarketed Bonds received in excess of the amounts reflected in the prior table are to be used, first, to redeem the Series B Bonds maturing July 1, 2023 (the "Unremarketed 2023 Term Bonds") to the extent necessary to satisfy the cumulative redemption schedule for such Unremarketed 2023 Term Bonds, and then to redeem Outstanding Series Bonds (including the Remarketed Bonds other than the 2023 Remarketed Term Bonds and other than the Unremarketed 2023 Term Bonds) on any date and from such series and maturities as selected by the Agency or, if no Series Bonds other than the 2023 Remarketed Term Bonds, the Unremarketed 2023 Term Bonds and the Lock-Out Series B Bonds (as hereinafter defined) are Outstanding, to redeem Outstanding 2023 Remarketed Term Bonds and Unremarketed 2023 Term Bonds on a proportionate basis, on any date, in whole or in part, in each case at a price equal to par plus accrued interest, without premium.

In addition, while any of the unremarketed Series Bonds remain Outstanding, certain moneys received from principal payments (including prepayments) allocable to the unremarketed Series Bonds (the "Unremarketed Bond Tax Restricted Principal Payments") are to be used (i) to the extent necessary, to pay regularly scheduled payments on the unremarketed Series Bonds and (ii) to redeem unremarketed Series Bonds pursuant to Section 143(a)(2) of the Code at a price of par plus accrued interest, without premium, on redemption dates selected by the Agency. The percentages of principal payments received which are so restricted are the same as set forth above with respect to the Remarketed Bond Tax Restricted Principal Payments.

To the extent not needed to make regularly scheduled payments on the unremarketed Series Bonds, Unremarketed Bond Tax Restricted Principal Payments received by or on behalf of the Agency shall first be applied to redeem the Unremarketed 2023 Term Bonds in accordance with a cumulative redemption schedule with respect to such Unremarketed 2023 Term Bonds, which cumulative redemption schedule is based upon an approximation of 100% TBMA prepayment experience and assuming the expected origination experience at the time of the initial issuance of the Series Bonds.

Unremarketed Bond Tax Restricted Principal Payments allocable to the unremarketed Series Bonds received in excess of the amounts reflected in the cumulative redemption schedule for the Unremarketed 2023 Term Bond are to be used, first, to redeem 2023 Remarketed Term Bonds to the extent necessary to satisfy the cumulative redemption schedule set forth above, and then to redeem Outstanding Series Bonds (including the Remarketed Bonds other than the 2023 Remarketed Term Bonds and other than the Unremarketed 2023 Term Bonds) on any date and from such series and maturities as selected by the Agency or, if no Series Bonds other than the 2023 Remarketed Term Bonds, the Unremarketed 2023 Term Bonds and the Lock-Out Series B Bonds are Outstanding, to redeem Outstanding 2023 Remarketed Term Bonds and Unremarketed 2023 Term Bonds on a proportionate basis, on any date, in whole or in part, in each case at a price equal to par, plus accrued interest, without premium.

Notwithstanding the foregoing, the Lock-Out Series B Bonds are not to be redeemed from such excess Remarketed Bond Tax Restricted Principal Payments or Unremarketed Bond Tax Restricted Principal Payments unless no other Series Bonds, including the Remarketed Bonds, are Outstanding. Such redemptions in excess of the amounts reflected in the appropriate cumulative redemption table shall not be required: (i) if there is a change in the Code or any temporary, proposed or final Treasury Regulations, or notice or similar announcement from time to time, which has the effect of removing the requirement of such redemptions for the Series Bonds (legislation has been introduced in the current session of Congress which, if enacted in the form in which it was introduced, would have such effect); and (ii) if there shall be delivered to the Trustee an opinion of Bond Counsel that failure to make such redemptions will not adversely affect the exclusion from gross income of the interest on the Series Bonds.

To the extent received by the Agency, Prepayments of Program Loans which are not Remarketed Bond Tax Restricted Principal Payments or Unremarketed Bond Tax Restricted Principal Payments may be applied, at the option of the Agency, to redeem any Outstanding Bonds (other than the 2023 Remarketed Term Bonds and the Unremarketed 2023 Term Bonds). The Lock-Out Series B Bonds are not to be redeemed from such Prepayments unless no other Series Bonds, including the Remarketed Bonds, are Outstanding. (See "Certain Lock-Out Series B Bonds" below.)

Projected Weighted Average Lives of the 2023 Remarketed Term Bonds. The following information is provided in order to enable potential investors to evaluate the 2023 Remarketed Term Bonds which are the subject of special redemptions described above.

The weighted average life of a bond refers to the average of the length of time that will elapse from the date of issuance of such bond to the date each installment of principal is paid to the bondholder weighted by the amount of such installment. The weighted average life of the 2023 Remarketed Term Bonds will be influenced by, among other things, the rate at which Program Loans are originated and the rate at which principal payments (including scheduled payments and principal prepayments) are made on the Program Loans allocable to the Remarketed Bonds. An investor owning less than all of the 2023 Remarketed Term Bonds may experience redemption at a rate which varies from the average life of the 2023 Remarketed Term Bonds.

Prepayments of mortgage loans are commonly projected in accordance with a prepayment standard model. The following table, entitled "Projected Weighted Average Lives for the 2023 Remarketed Term Bonds" assumes, among other things, that (i) the Program Loans prepay at the indicated percentages of The Bond Market Association ("TBMA") prepayment experience, (ii) all amounts in the 2002 Series A-B Acquisition Account will be used to purchase Program Loans, (iii) all Program Loans will be financed by May 1, 2003, (iv) all scheduled principal and interest payments on Program Loans and Prepayments thereof are received thirty days after the date on which due and there are no foreclosure losses experienced on such Program Loans, and (v) the 2023 Remarketed Term Bonds are not redeemed pursuant to optional redemption or from Excess Revenues. Based on such assumptions, some or all of which are unlikely to reflect actual experience, the following table provides certain projected weighted average life information for the 2023 Remarketed Term Bonds.

Projected Weighted Average Lives for the 2023 Remarketed Term Bonds
(in years)

Prepayment Experience	2023 Remarketed Term Bonds Average Life	Prepayment Experience	2023 Remarketed Term Bonds Average Life
0%	18.82	75%	5.45
25	11.46	100	4.26
50	7.09	110 to 500	4.09

No assurance can be given that prepayments of principal of the Program Loans will conform to any level of a particular prepayment projection, schedule or model or that prepayments will be available to be applied to redemptions of any of the Remarketed Bonds, including the 2023 Remarketed Term Bonds. The rates of principal prepayments on Program Loans are generally influenced by a variety of economic, geographical, social and other factors, including servicing decisions, changing property values, prevailing interest rates and the time within which Program Loans are originated. In general, if prevailing interest rates fall significantly below the interest rates on the Program Loans financed by the Remarketed Bonds, such Program Loans may be likely to prepay at higher rates than if prevailing interest rates remain at or above the interest rates on such Program Loans. Conversely, if prevailing interest rates rise above the interest rates on the Program Loans financed by the Remarketed Bonds, the rate of prepayments might be expected to decrease. The rates of delinquencies and foreclosures on Program Loans will also affect the expected special redemption schedules. The Agency cannot predict the number of Program Loans financed by the Remarketed Bonds that may become delinquent or in foreclosure proceedings. For these reasons, the Agency cannot offer any assurances as to the rate at which the Program Loans financed by the Remarketed Bonds will prepay and offers no assurance that the scheduled amounts will, in fact, be available to effect any redemptions described herein.

Optional Redemption of Remarketed Bonds

The Remarketed Bonds are also subject to redemption at the option of the Agency as a whole or in part on any date on or after July 1, 2011, from any amounts available to the Agency for that purpose, and at a redemption price equal to par plus accrued interest, if any, without premium.

Certain Lock-Out Series B Bonds

As part of the original issuance of the Series Bonds, the Agency issued its Residential Housing Finance Bonds, 2002 Series B Bonds with a stated maturity of July 1, 2025 in the original principal amount of $6,980,000 and bearing interest at 5.55% per annum (the "Lock-Out Series B Bonds"). The Lock-Out Series B Bonds do not constitute Remarketed Bonds. Generally, the Series Bonds not constituting Remarketed Bonds are subject to redemption on the same terms and conditions as the redemption provisions of the Remarketed Bonds described above. The Lock-Out Series B Bonds, however, (i) are not subject to redemption from unexpended proceeds of the Series Bonds so long as any other Series Bonds (including the Remarketed Bonds) remain Outstanding, (ii) are not subject to special redemption from Excess Revenues prior to May 1, 2012 unless such redemption is necessary, in the opinion of bond counsel to the Agency, to preserve the exclusion of interest on the Series Bonds from gross income of the holders thereof for federal income tax purposes, (iii) are not subject to redemption from tax restricted principal payments allocable to the Series Bonds prior to May 1, 2012, as long as any other Series Bonds (including the Remarketed Bonds) remain Outstanding, (iv) are not subject to special redemption from other Prepayments of Program Loans prior to May 1, 2012 unless there are no other Series Bonds (including the Remarketed Bonds) Outstanding and such redemption is necessary, in the opinion of bond counsel to the Agency, to preserve the exclusion of interest on the Series Bonds from gross income of the holders thereof for federal income tax purposes, and (v) are not subject to redemption at the option of the Agency until May 1, 2012.

Mandatory Tender of Certain Remarketed Bonds Upon Certain Events

To the extent interest rates decline, and particularly to the extent interest rates available on mortgages decline in the State, potential applicants for Program Loans may be dissuaded from applying to the Agency for such

Program Loans, and the likelihood of a special redemption as described under "Special Redemption—*Non-Origination*" would be increased. In lieu of such redemption, the Agency has provided for the mandatory tender of Remarketed Bonds selected by the Agency for purchase at par (plus accrued interest if not an interest payment date), or, at the option of the registered owner, exchange for a Remarketed Bond of the same series and maturity and bearing interest as described below.

Mandatory Tender of Certain Remarketed Bonds. Pursuant to the Series Resolution, a principal amount of Remarketed Bonds as determined by the Agency (but not in excess of the principal amount of unexpended proceeds allocable to the Remarketed Bonds on deposit in the 2002 Series A-B Acquisition Account and any allocable amounts held in the Debt Service Reserve Fund) may be subject to mandatory tender for purchase on any date (the "Purchase Date"). On the Purchase Date, the Remarketed Bonds subject to mandatory tender shall either be purchased by the Agency and remarketed at an adjusted interest rate or rates or, if the registered owner so elects, exchanged for an equal amount of Remarketed Bonds of the same series and maturity bearing interest at the adjusted rate or rates.

Determination of Preliminary Adjusted Interest Rate. Upon making certain determinations as to the inability to purchase Program Loans at the mortgage rates established with respect to the Remarketed Bonds, the Agency may appoint a remarketing agent (the "Remarketing Agent") and, subject to the selection criteria set forth under the heading "Description of the Remarketed Bonds—Special Redemption—Non-Origination," provide the Remarketing Agent with a schedule of Remarketed Bonds of one or more series, and one or more maturities within a series, determined by the Agency to be subject to purchase on mandatory tender (the "Tender Bonds") and request the Remarketing Agent to determine, as of a stated date selected by the Agency not less than 5 days nor more than 10 days from the date of request, the interest rates (the "Preliminary Adjusted Rates") at which such Tender Bonds could be remarketed at par plus accrued interest. The aggregate principal amount of Tender Bonds set forth on the schedule may not exceed the unexpended proceeds allocable to the Remarketed Bonds held in the 2002 Series A-B Acquisition Account and any allocable amounts held in the Debt Service Reserve Fund and Insurance Reserve Fund. If the yield on the Tender Bonds at the Preliminary Adjusted Rates is at least 0.50% per annum lower than the yield on the Tender Bonds when issued, and certain other conditions relating to compliance with applicable federal tax law are met, the Agency may elect by written notice to the Trustee to call Tender Bonds for mandatory purchase on a date not less than 45 days after the date of such notice. Within each maturity designated by the Agency, the Trustee shall select at random the Remarketed Bonds to be designated as Tender Bonds.

Notice of Mandatory Tender. Not less than 35 days prior to a Purchase Date, notice of the mandatory tender or exchange shall be given by the Trustee to the registered owners of Tender Bonds. (See "Appendix F—Book-Entry-Only System.") Such notice shall state, in substance: (i) the Purchase Date; (ii) the Preliminary Adjusted Rates for applicable Tender Bonds; (iii) that the registered owners of such Tender Bonds will no longer be entitled to receive interest on such Bonds after the Purchase Date, except in the case of Tender Bonds retained at the election of the registered owner (which Tender Bonds shall bear interest at the Final Adjusted Rates, as defined below, from and after the Purchase Date); (iv) that each Tender Bond shall be purchased or deemed purchased on the Purchase Date unless the registered owner properly directs the Agency and Trustee not to purchase such Bond on the Purchase Date; and (v) that notwithstanding a direction not to purchase, the Tender Bonds may be redeemed by the Agency on the Purchase Date under certain circumstances as set forth in the Series Resolution. Such notice is to set forth the procedures to be followed by a registered owner who wishes to retain all or a portion (in whole multiples of $5,000) of such registered owner's Tender Bonds. Any such election to retain all or a portion of the Tender Bonds shall be irrevocable. Failure to follow the specified procedures shall result in a purchase or deemed purchase of such registered owner's Tender Bonds.

Final Adjusted Interest Rates. Not more than 30 nor less than 15 days prior to the Purchase Date, the Remarketing Agent shall determine and certify to the Trustee and the Agency the adjusted interest rate each maturity of Tender Bonds shall bear from and after the Purchase Date (the "Final Adjusted Rates"). Said Final Adjusted Rates shall be those rates which, in the judgment of the Remarketing Agent, would permit the sale of the applicable Tender Bonds at par on the date of determination.

Mandatory Tender or Redemption. Any Tender Bond called for mandatory tender on the applicable Purchase Date and not delivered to the Trustee for purchase by 11:30 a.m., New York Time, on the applicable Purchase Date shall be deemed tendered and a Remarketed Bond of the same series bearing interest at an adjusted rate may be issued in place thereof to the purchaser thereof. Any Tender Bond deemed purchased shall not bear interest from and after the Purchase Date and the holder thereof shall have no rights under the Resolutions other than the right to receive the purchase price thereof.

Upon the occurrence of certain events, the Agency may determine to redeem all Tender Bonds on the Purchase Date, notwithstanding the election by some registered owners to retain all or a portion of their Tender Bonds. The purchase of Tender Bonds is contingent upon satisfaction of certain arbitrage requirements of federal tax law, compliance with cash flow and other requirements of the Bond Resolution, maintenance of credit ratings on the Bonds outstanding under the Bond Resolution, and a determination that, given the final Adjusted Rates, Program Loans can be effectively originated and purchased to carry out the Program. If one or more of these prerequisites cannot be satisfied, the Agency may redeem all Tender Bonds on the Purchase Date without additional notice at a price of par plus accrued interest, without premium.

General Provisions

Except as otherwise provided in the Series Resolution, any Remarketed Bonds to be purchased or redeemed shall be purchased or redeemed only upon receipt by the Trustee of a certificate signed by an officer authorized by the Agency and stating the following: (a) the Series of Bonds to be purchased or redeemed; (b) the maturities within such Series from which Bonds are to be purchased or redeemed; and (c) the principal amount and maximum price of Bonds within such maturities to be purchased or redeemed. If less than all Bonds of a series and maturity are to be redeemed, the Bonds of that series and maturity to be redeemed shall be selected by lot, unless a different order of priority is specified by the Series Resolutions. The Agency shall not at any time cause Remarketed Bonds to be purchased or redeemed if this would have any material adverse effect on its ability to pay when due the principal of and interest on the Bonds Outstanding after such purchase or redemption.

The Trustee is required to mail a copy of the notice, by first class mail, to the registered owner of any Remarketed Bond called for redemption at least 30 days prior to the redemption date; said registered owner to be determined from the registry books as of the last business day of the month preceding the month in which such notice is mailed.

SECURITY FOR THE BONDS

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

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

Cash Flow Certificate

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

Revenues

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

Debt Service Reserve Fund

The Bond Resolution creates and establishes a Debt Service Reserve Fund and provides that the Debt Service Reserve Requirement as of any date shall be the sum of amounts established for each series of Bonds by each Series Resolution. The Debt Service Reserve Requirement with respect to the Series Bonds is equal, as of the date of calculation, to three percent (3%) of the principal amount of the then Outstanding Series Bonds.

The balance in the Debt Service Reserve Fund on September 30, 2002, was $5,275,650, which was at least equal to the Debt Service Reserve Fund Requirement for the Series of Bonds then Outstanding.

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

> In order to assure the payment of principal and interest on bonds and notes of the agency and the continued maintenance of all debt service reserve funds created and established therefor, the agency shall annually determine and certify to the governor, on or before December 1, (a) the

> amount, if any, then needed to restore each debt service reserve fund to the minimum amount required by the resolution or indenture establishing the fund, not exceeding the maximum amount of principal and interest to become due and payable in any subsequent year on all bonds or notes which are then outstanding and secured by such fund; and (b) the amount, if any, determined by the agency to be needed in the then immediately ensuing fiscal year, with other funds pledged and estimated to be received during that year, for the payment of the principal and interest due and payable in that year on all then outstanding bonds and notes secured by a debt service reserve fund the amount of which is then less than the minimum amount agreed. The governor shall include and submit to the legislature, in the budget for the following fiscal year, or in a supplemental budget if the regular budget for that year has previously been approved, the amounts certified by the agency . . . .

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

Insurance Reserve Fund

The Bond Resolution creates and establishes an Insurance Reserve Fund to be used for the purpose of paying that portion of the claim for loss with respect to any defaulted Program Obligation which is not paid by a public or private insuring agency. As of any particular date of calculation, the Insurance Reserve Requirement is the sum of amounts, if any, established for each Series of Bonds by the respective Series Resolutions. The Insurance Reserve Requirement with respect to the Remarketed Bonds is $0.

The balance in the Insurance Reserve Fund on September 30, 2002 was $330,000, which was at least equal to the Insurance Reserve Requirement for all Series of Bonds then Outstanding.

Additional Bonds

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

Any additional Bonds issued under the Bond Resolution will be on parity with the Series Bonds and all other outstanding Bonds and will be entitled to the equal benefit, protection and security of the provisions, covenants and agreements of the Bond Resolution.

State Pledge Against Impairment of Contracts

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

RESIDENTIAL HOUSING FINANCE PROGRAM

Under the Bond Resolution, the Agency may issue bonds to make or purchase Program Obligations in order to provide financing for housing for low and moderate income persons, including financing for single family loans, home improvement loans, multifamily loans and other housing-related loans, and to secure such loans in such manner as the Agency determines, which would include first mortgage loans, subordinate mortgage loans or loans which are unsecured. All series of Bonds issued under the Bond Resolution are secured on a parity. The proceeds of the Remarketed Bonds will be used to purchase Program Loans consisting of single family mortgage loans. The Agency does not currently anticipate that future series of Bonds issued under the Bond Resolution will finance Program Obligations other than single family loans or home improvement loans.

All series resolutions adopted to date have provided for the issuance of Bonds under the Bond Resolution for the purpose of financing single family mortgage loans or home improvement loans. For a general description of the current home improvement program, which is subject to change from time to time, see "Home Improvement Program."

SINGLE FAMILY HOUSING PROGRAM

Procedures for Origination and Purchase

General

The following provides a general description of the Agency's Program with respect to Program Loans constituting loans to purchase single family housing mortgage loans (the "Single Family Housing Program") under the Bond Resolution, which is subject to change from time to time. *The Series Program Determinations governing the Program Loans to be financed with proceeds of the Series Bonds may be revised by the Agency from time to time as provided in the Bond Resolution and consequently the following general description is subject to change.*

Application

The Agency's Single Family Housing Program provides funds for the purchase by the Agency of newly originated Single Family Program Loans at a price and bearing interest at rates to be established on the basis of the interest cost of the Bonds. From the proceeds of Bonds of an issue, the Agency intends to purchase Single Family Program Loans on terms resulting in an effective rate sufficient to pay the principal of and interest on the Bonds of such issue, the costs of servicing the Single Family Program Loans and other Program Expenses. The Agency may require the payment of discount points to reduce the overall interest rate on the Single Family Program Loans, provide adequate compensation to Lenders and defray Agency operation costs and expenses.

In connection with the Single Family Housing Program, the Agency has published *The MHFA Mortgage Program Procedural Manual* (the "Single Family Manual") which sets forth the guidelines and procedures for participation in the Single Family Housing Program and the requirements for origination of Single Family Program Loans, including provisions for compliance with the requirements of applicable federal law. The Agency responds to inquiries by interested lenders by sending them information regarding the requirements a lender must satisfy to be eligible to participate in the Single Family Housing Program. Each Lender that meets Single Family Housing Program requirements and participates in the Single Family Housing Program either executes or has executed a lender commitment agreement (the "Agreement") which incorporates the Single Family Manual by reference. Generally, Lenders that participate in the Single Family Housing Program receive no advance commitment of funds from the Agency (see exceptions in "Special Assistance Programs" below). Rather, on the day funds become available, Lenders may fax the Agency for an individual commitment of Single Family Program Loan funds on a case-by-case basis as each application is taken and initially screened by the Lender. The Single Family Program Loan funds are then to be reserved for each specific case for a specific term. Should a specific case ultimately be declined or cancelled, the funds are available for use by another eligible borrower and Lender. The amount of funds that may be used by an individual participating Lender is to be determined by the Single Family Program Loan demand experienced by the Lender.

Upon execution of the Agreement by the Agency, each Lender headquartered in the HUD-identified Metropolitan Statistical Areas of Duluth-Superior, MN-WI, Fargo-Moorhead, ND-MN, Grand Forks, ND-MN, La Crosse, WI-MN, Minneapolis-St. Paul, MN-WI, Rochester, MN and St. Cloud, MN must pay an initial fee of $5,000 to participate in the Single Family Housing Program and an annual renewal fee of $2,500, Lenders headquartered in the balance of the State must pay an initial participation fee of $2,000 and an annual renewal fee of $1,000, unless payment of such fees is specifically modified or waived by the Agency. Lenders are not required to pay a reservation fee upon initial telecopied reservation of an individual commitment. If the Agency has not purchased a Single Family Program Loan pursuant to an individual commitment after 90 days where an existing home is to be financed or after 120 days if a newly constructed home is to be financed, the Agency, at its option, may charge and, if so charged, the Lender must agree to pay an extension fee to maintain the individual commitment for a specified, extended period of time. Participation fees and, if charged, unrefunded extension fees are to be deposited in the General Reserve Account and are not specifically pledged to the payment of the Bonds.

Qualified Borrowers

The Agency has established the maximum gross income for eligible borrowers under the Single Family Housing Program based upon applicable federal law, the interest rate to be charged on the Single Family Program Loan and Agency policy objectives. The maximum gross income of an eligible borrower under the Single Family Housing Program is currently as follows (higher maximum incomes are currently permitted in connection with "Special Assistance Programs" and "Agency Bond Issuance on Behalf of Local Governments" described below) :

	Persons in Household							
Location of Mortgaged Property	One	Two	Three	Four	Five	Six	Seven	Eight
11-County Twin Cities Metropolitan Area	$42,950	$49,100	$55,200	$61,350	$66,250	$71,200	$76,100	$81,000
Olmsted County	41,600	47,550	53,500	59,450	64,200	68,950	73,700	78,450
Balance of State	36,100	41,300	46,450	51,600	55,750	59,850	64,000	68,100

The Agency will apply the limitations set forth in Section 143(f) of the Internal Revenue Code of 1986, as amended (the "Code"), to applicants for Single Family Program Loans from the proceeds of Bonds. The Agency may revise said income limits for the Single Family Housing Program and for Homeownership Assistance Payments from time to time to conform with State and federal law and Agency policy objectives.

At the time the Single Family Program Loan is made, the borrower must certify his or her intention to occupy the mortgaged property as his or her principal residence.

Credit underwriting must be in compliance with Federal Housing Administration (the "FHA"), the Veterans Administration (the "VA"), the USDA Rural Development (formerly the Rural Housing and Community Development Service) ("USDA Rural Development") and/or mortgage industry accepted underwriting standards. For loans which are not insured or guaranteed by FHA, VA or USDA Rural Development, the Agency requires Federal National Mortgage Association ("FNMA"), Federal Home Loan Mortgage Corporation ("FHLMC") or private mortgage insurance standards as defined in the Single Family Manual.

Currently, borrowers may be eligible for assistance for entry costs, monthly principal and interest payments, equity contributions or all three forms of subsidy, if needed for borrower qualification. See "Homeownership Assistance Fund Loans" below.

Single Family Program Loans

Single Family Program Loans may be purchased from (1) Lenders including any bank, savings bank, mutual savings bank, savings and loan association, building and loan association organized under the laws of Minnesota or the United States or non-profit licensed by the State of Minnesota, and any mortgagee or lender approved or certified by the Secretary of Housing and Urban Development or by the Administrator of Veterans Affairs, or (2) any agency or instrumentality of the United States or the State.

Under the Series Resolution, the Agency must take or require a Servicer to take all measures, actions and proceedings reasonably necessary and deemed by it to be most effective to recover the balance due on a Defaulted Program Loan, including the curing of the default by the Mortgagor, foreclosure of the Mortgage, acceptance of a conveyance in lieu of foreclosure, sale of the Mortgage, renting or selling the Home, collection of any applicable mortgage insurance or guaranty, and preservation of the title to and value of the Home pending recovery of the balance of the Defaulted Program Loan. See "State Laws Affecting Foreclosures" in Appendix E.

Qualified Real Property

Pursuant to the Single Family Manual, Single Family Program Loans may be purchased for (1) residential property in Minnesota on which is located an owner-occupied one- or two-family dwelling, or (2) an owner-occupied residential unit in a condominium, townhouse or planned unit development.

The Agency has established maximum purchase prices under the Single Family Housing Program pursuant to the requirements of applicable federal law. For tax-exempt Bonds maximum purchase prices for both one- and two-family homes currently are as follows (higher purchase prices are currently permitted in connection with "Special Assistance Programs" and "Agency Bond Issuance on Behalf of Local Governments" described below):

If the property to be mortgaged is located in:	The Minnesota Mortgage Program	
	Existing Residences	**New Residences**
11-County Twin Cities Area	$175,591	Not Allowed
Aitkin County	103,408	$103,408
Becker County	92,402	92,402
Beltrami County	84,400	84,400
Benton County	98,501	98,501
Blue Earth County	105,691	105,691
Brown County	87,119	87,119
Carlton County	92,193	92,193
Cass County	96,632	96,632
Clay County	91,168	91,168
Cook County	101,811	101,811
Crow Wing County	123,081	123,081
Dodge County	102,442	102,442
Douglas County	113,115	113,115
Fillmore County	83,723	83,723
Goodhue County	128,138	128,138
Houston County	98,108	98,108
Hubbard County	105,223	105,223
Itasca County	96,632	96,632
Kanabec County	81,893	81,893
Kandiyohi County	97,935	97,935
Lake County	86,451	86,451
Le Sueur County	121,414	121,414
Lyon County	83,954	83,954

If the property to be mortgaged is located in:	The Minnesota Mortgage Program	
	Existing Residences	New Residences
McLeod County	$112,971	$112,971
Meeker County	99,732	99,732
Mille Lacs County	98,414	98,414
Morrison County	82,361	82,361
Nicollet County	117,930	117,930
Olmsted County	129,313	129,313
Otter Tail County	88,621	88,621
Pennington County	103,114	103,114
Pine County	88,285	88,285
Polk County	83,576	83,576
Rice County	133,299	131,070
Sibley County	86,091	86,091
St. Louis County	101,811	101,811
Stearns County	98,501	98,501
Steele County	109,155	109,155
Wabasha County	113,941	113,941
Waseca County	91,279	91,279
Winona County	105,055	105,055
Balance of State	77,540	77,540

The Agency may revise said maximum purchase prices from time to time to conform with applicable State and federal law and Agency policy objectives. New construction is currently not permitted to be financed in the 11-county Twin Cities metropolitan area, except in connection with the special assistance programs and Agency bond issuance on behalf of local governments described below.

Under federal law, except in limited circumstances, no newly constructed two-family residences may be financed, as such properties must have been previously used as a two-family residence for at least five years prior to the date of closing.

Special Assistance Programs

Notwithstanding the above, the Agency may set aside the proceeds of Bonds under the Single Family Housing Program for special assistance program components to meet specified housing needs identified by the Agency. Under such program components, the Agency may commit proceeds to such entities as Lenders, units of local government or local housing and redevelopment authorities, nonprofit housing providers, builders/developers, and other entities that, in turn, will provide housing finance opportunities that address a specified housing need to qualified borrowers purchasing qualified real property.

All Single Family Program Loans originated under special assistance program components shall be qualified Single Family Program Loans as described above. Under certain circumstances, the Agency may elect to directly originate such Single Family Program Loans through its own staff.

Both borrowers and properties under special assistance program components are to be in compliance with FHA/VA/USDA Rural Development and/or mortgage industry accepted underwriting standards. The Agency may elect to either reduce or increase the income and/or house price limits provided herein incident to a specific assistance program component, but in all circumstances, the Agency will assure that the applicable limits meet the requirements of federal law.

Agency Bond Issuance on Behalf of Local Governments

State law provides the process and procedures by which applicable units of local government may request an allotment and subsequent allocation of qualified mortgage bond authority from a statewide housing pool established for this purpose. In 1990, the State Legislature passed a law which enables applicable units of local government to assign their qualified mortgage bond authority to the Agency which may then issue bonds on behalf of local governments up to the amount of allocation assigned to the Agency.

Under the terms by which the Agency has agreed to accept the assignment of bond allocation, the Agency is to set aside the amount of funds allocated for each unit of local government for the exclusive use of said local government in the geographic area designated by same for a six month period. During the set-aside period, Lenders designated by the unit of local government may reserve Single Family Program Loans for specific cases for a specific term in accordance with the Single Family Manual. Should any funds remain unreserved at the end of the six-month set-aside period, remaining funds are then to be available for Single Family Program Loans to be reserved by any other participating units of local government for an additional two-month period. At the end of the two-month period, any unreserved funds are available to the Agency for general program purposes.

Pursuant to State law governing the allotment and allocation of qualified mortgage bond authority, applicable units of local government may establish income and/or house price limits somewhat higher than the limits otherwise provided for the Single Family Housing Program. However, the Agency is to assure that the applicable limits meet requirements of federal law.

All Single Family Program Loans originated pursuant to Agency bond issuance on behalf of units of local government shall be qualified Single Family Program Loans as described above. Both borrowers and properties are to be in compliance with FHA, VA, USDA Rural Development and/or mortgage industry accepted underwriting standards. However, participating units of local government do have the authority to set-aside funds to meet locally identified housing goals or address special program purposes within their geographic areas.

Homeownership Assistance Fund Loans

The Agency has established a Homeownership Assistance Fund created with appropriations by the State Legislature from which Homeownership Assistance Fund loans are made. In addition, the Agency has established a Homeownership Endowment Fund within the Bond Resolution which is also a source of funding for these loans. A Homeownership Assistance Fund loan is a second mortgage loan made by the Agency to the Mortgagor for one of three purposes: (i) to assist in the payment of entry costs (i.e., required down payment and closing costs) on the home (up to a maximum of $2,500); (ii) to assist in the payment of monthly principal and interest on the Single Family Program Loan (up to a maximum of $1,440); or (iii) to provide an equity contribution loan in the amount necessary to reduce the Single Family Program Loan payments to an affordable level (up to a maximum of $10,000). Eligible Mortgagors may receive either entry cost assistance or payment assistance separately or together, but may only receive the equity contribution loan after application of the first two forms of assistance fail to qualify them for the Single Family Program Loan. At the time the Single Family Program Loan is made, the Agency agrees to provide assistance and the Mortgagor agrees to repay such loan upon sale, transfer, refinancing or when the property is no longer occupied by the Mortgagor.

Mortgagors who meet program income requirements and who do not have sufficient cash for down payment and closing costs are eligible for entry cost assistance of up to $2,500. Mortgagors that wish to receive monthly payment assistance or an equity contribution loan must attend qualified homebuyer classroom instruction for at least six hours before the Single Family Program Loan is closed. This requirement does not apply to Mortgagors that receive only entry cost assistance.

Assistance for monthly principal and interest payments is also available to the Mortgagor at the program income limits previously noted. The initial monthly assistance payment (made directly by the Agency to the Servicer) ranges from a maximum of $60 ($1,440 cumulative) to a minimum of $20 ($240 cumulative) based upon actual need for the assistance by the Mortgagor. Monthly assistance payments decrease by $20 each year until the assistance ceases. In making a Single Family Program Loan, the monthly assistance payments will be taken into account in determining the ability of the Mortgagor to pay principal of and interest on the Single Family Program Loan over its term.

Mortgagors whose housing debt ratio is greater than 28% of their total income and who will receive the maximum monthly payment assistance of $60 per month may also be eligible for an equity contribution loan in an amount necessary to reduce their housing debt ratio to 28%, but not to exceed $10,000. The equity contribution loan is available to Mortgagors who qualify under the program income limits and obtain loans under the Agency's Community Activity Set Aside Program. The equity contribution loan is a deferred loan which is due on sale, transfer or refinancing or when the property is no longer occupied by the Mortgagor.

Single Family Program Loans made or purchased from the proceeds of a series of Bonds may or may not include Homeownership Assistance. The Homeownership Assistance Fund has not been pledged to and is not available for the payment of principal or interest on the Bonds. Amounts on deposit in the Homeownership Endowment Fund are available for the payment of principal of or interest on the Bonds, subject to the programmatic uses of the Homeownership Endowment Fund under the Bond Resolution, but the Agency has not covenanted to maintain any minimum balance in the Homeownership Endowment Fund or otherwise to assure that funds will be available in the Homeownership Endowment Fund for purposes of payment or security of the Bonds.

Target Areas

Pursuant to applicable federal law, target areas have been established for the Single Family Housing 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 Bond proceeds for the purchase of Single Family Program Loans financing the purchase of residences located in Target Areas and will advertise the availability of Bond funds for Single Family Program Loans in Target Areas. The Agency is also required to exercise reasonable diligence in seeking to finance residences in Target Areas with Bond proceeds. Absent any determination by the Agency that further availability of the Bond proceeds is required by federal law, any moneys remaining unused may be made available to finance the purchase of residences located anywhere within the State, or may be used to redeem Bonds.

Servicing

Under the Single Family Housing Program, the Agency has set forth requirements for the servicing and accounting of Single Family 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 a number of reports from its Servicers. Among those to be submitted is a monthly reconciliation report together with a supporting loan trial balance. In addition, a settlement remittance report, designed to summarize amounts due the Agency and to reconcile weekly remittances to the final amount due for the reporting period, is due on a monthly basis. The Agency has established specific requirements for Servicers regarding the procedures to be followed in cases involving delinquencies. In addition to a monthly report requirement, Servicers are required, by following the Agency's procedures, to bring a delinquency current in the shortest possible time. The Agency may, at any time, terminate a servicing agreement and re-assign servicing.

Under the Program, Servicers will receive as compensation a monthly servicing fee not to exceed 1/12 of 1/4 of 1 percent of the outstanding principal amount of Single Family Program Loans.

Applicable Federal Law Mortgage Eligibility Requirements

Applicable federal law imposes significant limitations on the financing of mortgage loans on owner occupied one- to four-family residences with the proceeds of a qualified mortgage bond issue.

Single Family Mortgage Loan Portfolio

As of June 30, 2002, the Agency had outstanding single family program loans of $51,296,290, gross, acquired from the proceeds of the Outstanding Bonds. An additional $33,844,672 aggregate principal amount of mortgage loans were being processed at June 30, 2002. As of June 30, 2002, excluding the proceeds of short-term bonds and notes, there were approximately $28,835,915 of uncommitted proceeds from previous bond sales available for commitment. Not all loan commitments result in the purchase of a mortgage loan. The ability of the Agency to recommit funds depends on market conditions at the time a loan commitment expires without a loan closing.

The Agency's combined delinquency and foreclosure experience is currently below that for the United States as most recently published in the quarterly National Delinquency Survey by the Mortgage Bankers Association of America, as adjusted by the Agency to reflect the mix of mortgage guaranty and insurance types present in the Agency's portfolio.

HOME IMPROVEMENT PROGRAM

Procedures for Origination and Purchase

General

The following provides a general description of the Agency's Program in respect of Program Loans to finance home improvements ("Home Improvement Program Loans"), which is subject to change from time to time as provided in the Bond Resolution and any applicable series resolution.

Under its Program, the Agency intends to reimburse itself for its purchase of, or to purchase, Home Improvement Program Loans at varying terms and interest rates. The interest rates are established from time to time and are estimated to cover anticipated costs of funding the Home Improvement Program Loans, servicing the Home Improvement Program Loans and defraying a portion of other Program expenses which include compensation to Lenders and Agency operation costs and expenses. Under the Community Fix-up Fund Program, reduced interest rates on loans are available for individuals or families with gross annual household income of $35,000 or less and subprime loans are available at higher interest rates.

Lender Application and Participation

The Home Improvement Program includes loans from the Fix-up Fund, which provides home improvement loans to low and moderate income homeowners, and the Community Fix-up Fund, which provides home improvement loans to assist a designated community in addressing its specific home improvement needs through partnerships with local lenders, nonprofit organizations, local governments and community organizations. Within the Community Fix-up Fund, sub-prime loans are available to serve households unable to qualify for conventional financing or refinancing.

The Agency may purchase Home Improvement Program Loans from participating banks, savings banks, mutual savings banks, savings and loan associations organized under the laws of Minnesota or the United States, non-profit organizations licensed by the State of Minnesota and agencies or instrumentalities of the United States or the State (the "Lenders").

In connection with the Home Improvement Program, the Agency has published the *Fix-up Fund Procedural Manual* (the "Fix-up Fund Manual") for the purchase of Home Improvement Program Loans which sets forth the guidelines and procedures for participation in the Home Improvement Program and the requirements for origination of Home Improvement Program Loans.

The Agency responds to inquiries by interested Lenders by sending them information regarding the requirements a lender must satisfy to be eligible to participate in the Home Improvement Program. Each Lender that meets the Home Improvement Program requirements and participates in the Program either executes or has executed a Participation Application and Note Purchase Agreement (the "Agreement") that incorporates the Fix-up Fund Manual by reference. Lenders that participate in the Home Improvement Program receive no advance commitment of funds from the Agency. Rather, as funds are available, Lenders may fax the Agency for an Individual Commitment of Program loan funds on a case-by-case basis as each application is taken and initially screened by the Lender. The Home Improvement Program loan funds are then reserved for each specific case for a specific term. Should a specific case ultimately be declined or cancelled, the funds are available for use by another eligible borrower and Lender. The amount of funds that may be used by an individual participating Lender is to be determined by the Home Improvement Program Loan demand experienced by the Lender.

Upon execution of the Agreement by the Agency, each Lender must pay an initial fee of $1,000 to participate in the Home Improvement Program and an annual renewal fee of $500, unless payment of such fees is specifically modified or waived by the Agency. A Lender is eligible to pay the $500 renewal fee only if the Lender has originated a minimum of six loans during the 12-month period that begins on the first July 1st that follows execution of an Agreement with the Agency.

Qualified Borrowers

Borrowers must be persons or families of low to moderate income. Low to moderate income is currently defined as gross annual household income that does not exceed the greater of 100% of area or statewide median income.

When the proceeds of a Home Improvement Program Loan will be made to a homeowner for improvements that will enable the homeowner or a resident of their household with a permanent physical or mental condition that substantially limits one or more major life activities to function in the subject home, Home Improvement Program Loans may be made to otherwise eligible homeowners and properties without limitations relating to the maximum income of the homeowner.

The Home Improvement Program Loan note contains certain promises and conditions including: the property to be improved must be the principal residence of the Borrower; the property to be improved is a completed home and is a year-round permanent residence; the residence is permanently attached to the land by way of a foundation and is taxed as real property; the Borrower does not use or does not intend to use more than 49% of the residence primarily for business purposes; and the Borrower has at least a one-third interest in the residence, either as owner, as holder of a life estate, or as a buyer under a contract for deed.

Additionally, the Home Improvement Program requires that the Borrower will use loan proceeds only for eligible improvements as described on the Agency's credit application; loan funds will be used and improvements completed within nine months of the date of the Home Improvement Program Loan note; the Agency has the right to inspect the property to be improved at any time from the date of the Home Improvement Program Loan note; work must comply with applicable building or housing code regulations and ordinances; and all necessary permits and licenses shall be obtained. The Home Improvement Program Loan note also contains due-on-sale, non-assumption provisions.

Loan Origination

By terms of the Agreement, Lenders are responsible for receiving applications for loans; processing applications; gathering supporting documentation to establish applicant and property compliance with Home Improvement Program eligibility requirements, including documentation showing the applicant to be solvent with reasonable ability to pay the Home Improvement Program Loan; and closing and funding Home Improvement Program Loans.

The purchase price of each Home Improvement Program Loan is the original principal balance of the subject Program Loan plus a processing fee of $450.

Warranties by Lender

The Lender warrants that the following additional documentation has been retained by the Lender and shall be made available to the Agency upon request: (1) written evidence of verification of income sources relied upon for repayment of the Home Improvement Program Loan; (2) credit report and supplementary information as appropriate for normal, prudent underwriting; (3) documentation of the current ownership of property and prior encumbrances; (4) bids and estimates for all proposed improvements; and (5) any compliance documentation required by Lender's regulatory authority. For a Home Improvement Program Loan secured with a mortgage the Lender warrants that it has submitted the original mortgage and assignment of mortgage to the county for recording, and that the recorded documents will be forwarded directly to the Agency upon receipt by the Lender.

The Lender must repurchase a Home Improvement Program Loan in the event of breach of its warranties with regard to such Program Loan.

Special Assistance Programs

Notwithstanding the above, the Agency may set aside the proceeds of the Remarketed Bonds under the Home Improvement Program for special assistance program components to meet specified housing needs identified by the Agency. Under such program components, the Agency may commit proceeds to Lenders that, in turn, will provide home improvement financing opportunities that address a specified need. These needs may be geographic in nature or may pertain to a homeowner's credit history, and property ownership in the form of leased land or a personal property mobile home.

Lenders are approved for the special assistance programs by way of an addendum to the Agreement specifying one or more special needs that will be targeted. The Lender may originate Home Improvement Program Loans that (1) provide a higher income limit; (2) provide a lower interest rate for lower income borrowers; (3) provide a higher loan amount; or (4) expand credit underwriting criteria to include persons who show affordability for Home Improvement Program Loan repayment but have blemishes on their credit history.

The purchase price of these special assistance Home Improvement Program Loans is the original principal balance of the subject Home Improvement Program Loan plus a processing fee of $550 or in the case of credit history issues, a $650 processing fee.

Terms of Home Improvement Program Loans

Home Improvement Program Loans bear simple interest, and must be structured to provide for monthly payments. The term of a Home Improvement Program Loan may not exceed 20 years. Home Improvement Program Loans are purchased in principal amounts of up to $25,000, except where consolidated with existing Agency loans, or where used exclusively for accessibility improvements, in which cases the total loan amount may not exceed $35,000.

Home Improvement Program Loans are secured by a mortgage against the property if: (i) the principal amount of the Home Improvement Program Loan exceeds $5,000, (ii) the new loan plus the outstanding balances of all previously received Fix-up Fund Loans, Home Energy Loans, Community Fix-up Fund Loans and Accessibility Loans exceeds $5,000, or (iii) the Agency determines that prudent lending practices require that a mortgage be taken as security for the payment of the Home Improvement Program Loan.

Mortgages on Home Improvement Program Loans are not subject to mortgage insurance and may be subordinated to an outstanding first mortgage on the property.

Home Improvement Program Loans may be prepaid at any time without penalty.

Servicing

Under the Home Improvement Program, the Agency has set forth requirements for the servicing of and accounting of Home Improvement Program Loans in a Servicing Manual. The Servicer must demonstrate adequate technical capability to the Agency's satisfaction. The Servicer must maintain at all times a fidelity bond and an errors and omissions policy issued by a company having a current rating in Best's Rating Guide of "B/IX" or better.

The Agency monitors the performance of the Servicer by reviewing the annual audited financial statements and the Servicer's systems of internal controls and reconciling monthly reports to the Agency's control accounts. The Agency has established specific requirements for the Servicer regarding the procedures to be followed in cases involving delinquencies. Under the Home Improvement Program, the Servicer will receive a monthly servicing fee equal to 95/1200 of the outstanding principal amount of Home Improvement Program Loans. The Agency may assign servicing to other servicers at its discretion.

Under the Series Resolution, the Agency must take or require a Servicer to take all measures, actions and proceedings reasonably necessary and deemed by it to be most effective, in light of the circumstances and the nature of the security, if any, for the Home Improvement Loan, to recover the balance due on a Defaulted Program Loan.

OTHER PROGRAMS

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

TAX EXEMPTION AND RELATED CONSIDERATIONS

General

The Remarketed Bonds are subject to the requirements of Sections 143 and 148 and certain other sections of the Code.

The loan eligibility requirements of Section 143 applicable to Program Loans funded in whole or in part with proceeds of the Remarketed Bonds are that (1) the Home on which the Program Loan is made is a single family residence which, at the time the Program Loan is made, is or can reasonably be expected within a reasonable time to become the principal residence of the Mortgagor and is located in the State; (2) except in certain limited circumstances, no part of the proceeds is to be used to acquire or replace any existing mortgage; (3) the "acquisition cost" of the Home meets certain limits; (4) the family income of the Mortgagor meets certain limits; (5) with certain exceptions, the Mortgagor shall not have had a present ownership interest in his principal residence during the preceding three years; and (6) the Program Loan shall not be assumable unless the requirements of (1), (3), (4) and (5) above are met at the time of the assumption. An issue is treated as meeting the loan eligibility requirements of Section 143 if (1) the issuer in good faith attempted to meet all of the requirements before the loans were executed; (2) 95% or more of the proceeds of the issue used to finance loans were devoted to residences which met all such requirements at the time the loans were executed or assumed; and (3) any failure to comply with the loan eligibility requirements is corrected within a reasonable period after such failure is first discovered.

The Code also imposes additional requirements to maintain the exclusion from gross income for federal income tax purposes of interest on the Remarketed Bonds. For example, the Code limits the amount of the costs of issuance which may be paid from the proceeds of the Remarketed Bonds and limits the size of reserve funds established with the proceeds of the Remarketed Bonds. In addition, the Code imposes, on a continuing basis, limitations on investment of the proceeds of the Remarketed Bonds and requires earnings on non-mortgage investments in excess of the yield on the Remarketed Bonds to be rebated to the United States.

The Agency has included provisions in the Resolutions, the Manual and other relevant documents, and has established procedures (including receipt of certain affidavits and warranties from Lenders, Mortgagors and others respecting the mortgage eligibility requirements) in order to ensure compliance with the requirements of the Code which must be met subsequent to the date of original issuance of the Remarketed Bonds. The Agency has covenanted in the Resolutions to do all things necessary to assure that interest on the Remarketed Bonds will be excludable from federal gross income and not to permit any proceeds of the Remarketed Bonds to be used in a manner which violates any of the restrictions contained in applicable federal law. In the opinion of Bond Counsel, the Manual and the Agency's covenants in the Resolutions establish procedures under which the requirements of applicable federal law can be met. Noncompliance with the requirements in the Manual and Resolutions may cause interest on the Remarketed Bonds to become includable in the federal gross income of the owners thereof retroactive to the date of issue.

Assuming compliance with certain covenants in the Manual and Resolutions intended to assure compliance with the Code and with the procedures established by the Agency, in the opinion of Dorsey & Whitney LLP, Bond Counsel, under existing laws, regulations, rulings and decisions, interest on the Remarketed Bonds is not includable in gross income of the owners thereof for federal income tax purposes.

The Code imposes an alternative minimum tax with respect to individuals and corporations on alternative minimum taxable income. *In the opinion of Bond Counsel, interest on the 2002 Series B-1 Bonds, but not the 2002 Series A-1 Bonds, will be treated as a preference item for purposes of calculating the federal alternative minimum taxable income of individuals and corporations. Interest on the 2002 Series A-1 Bonds will be included in adjusted current earnings for purposes of computing federal alternative minimum taxes imposed on corporations.*

Section 86 of the Code and corresponding provisions of Minnesota law require recipients of certain social security and railroad retirement benefits to take interest on the Remarketed Bonds into account in determining the taxability of such benefits. Passive investment income, including interest on the Remarketed Bonds, may be subject to taxation under Section 1375 of the Code, and corresponding provisions of Minnesota law, for an S corporation that has accumulated earnings and profits at the close of the taxable year, if more than 25 percent of its gross receipts is passive investment income. Section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Remarketed Bonds, and Minnesota law similarly denies a deduction for such interest in the case of individuals, estates and trusts. Indebtedness may be allocated to the Remarketed Bonds for this purpose even though not directly traceable to the purchase of the Remarketed Bonds. Federal and Minnesota laws also restrict the deductibility of other expenses allocable to the Remarketed Bonds. In the case of a financial institution, no deduction is allowed under the Code for that portion of the holder's interest expense which is allocable to interest on the Remarketed Bonds within the meaning of Section 265(b) of the Code. In the case of an insurance company subject to the tax imposed by Section 831 of the Code, the amount which otherwise would be taken into account as losses incurred under Section 832(b)(5) of the Code must be reduced by an amount equal to 15 percent of the interest on the Remarketed Bonds that is received or accrued during the taxable year. Interest on the Remarketed Bonds may be included in the income of a foreign corporation for purposes of the branch profits tax imposed by Section 884 of the Code, and is included in net investment income of foreign insurance companies under Section 842(b) of the Code.

The market value and marketability of the Remarketed Bonds may be adversely affected by future changes in federal or Minnesota tax treatment of interest on the Remarketed Bonds or by future reductions in income tax rates.

THE FOREGOING IS NOT INTENDED TO BE AN EXHAUSTIVE DISCUSSION OF COLLATERAL TAX CONSEQUENCES ARISING FROM OWNERSHIP OR DISPOSITION OF THE REMARKETED BONDS OR RECEIPT OF INTEREST ON THE REMARKETED BONDS. PROSPECTIVE PURCHASERS OR BONDHOLDERS SHOULD CONSULT THEIR TAX ADVISORS WITH RESPECT TO COLLATERAL TAX CONSEQUENCES AND APPLICABLE STATE AND LOCAL TAX RULES IN STATES OTHER THAN MINNESOTA.

Certain State Tax Legislation

The 1995 State Legislature enacted a statement of intent, codified as Minnesota Statutes, Section 289A.50, subdivision 10, that interest on obligations of Minnesota governmental units and Indian tribes be included in the net income of individuals, trusts and estates for Minnesota income tax purposes if a court determines that Minnesota’s exemption of such interest unlawfully discriminates against interstate commerce because interest on obligations of governmental issuers in other states is so included. This provision applies to taxable years that begin during or after the calendar year in which any such court decision becomes final, irrespective of the date upon which the obligations were issued. No similar legislation was proposed or approved during recent legislative sessions. The Agency is not aware of any judicial decision holding that a state’s exemption of interest on its own bonds or those of its political subdivisions or Indian tribes, but not of interest on the bonds of other states or their political subdivisions or Indian tribes, unlawfully discriminates against interstate commerce or otherwise contravenes the United States Constitution. Nevertheless, the Agency cannot predict the likelihood that interest on the Remarketed Bonds would become taxable (for Minnesota income tax purposes) under this Minnesota statutory provision.

LEGAL MATTERS

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

REMARKETING

Remarketed Bonds in the principal amount of $21,195,000 have been remarketed by the Remarketing Agents, for which UBS PaineWebber Inc., U.S. Bancorp Piper Jaffray Inc., RBC Dain Rauscher Inc. and Salomon Smith Barney Inc. are acting as Managers (herein referred to as the "Remarketing Agents"). The Remarketing Agents are to be paid a fee of $253,684.64 with respect to such remarketing. 2002 Series A-1 Bonds in the principal amount of $1,165,000 and 2002 Series B-1 Bonds in the principal amount of $4,055,000 are being retained by the owners thereof and are not being remarketed as described herein.

2002 Series B-1 Bonds with a stated maturity of July 1, 2033 in the aggregate principal amount of $6,205,000 are being directly placed by the Agency and are not being offered by the Remarketing Agents.

MISCELLANEOUS

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

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

MINNESOTA HOUSING FINANCE AGENCY

By /s/ KATHERINE G. HADLEY
Commissioner

Dated: October 31, 2002.

APPENDIX A

CERTAIN FINANCIAL STATEMENTS REGARDING THE RESIDENTIAL HOUSING FINANCE FUND AND THE GENERAL RESERVE

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MINNESOTA HOUSING FINANCE AGENCY
STATEMENTS OF NET ASSETS
(for specified funds)
(unaudited)
(in thousands)

The following information with respect to the General Reserve and Residential Housing Finance Fund for fiscal years ended June 30, 2002 and June 30, 2001 were prepared by the Agency using information derived from the audited financial statements, and, in the opinion of the Agency, includes information necessary for a fair statement of the financial position and results of operations of those Funds for the periods. This information is not accompanied by a statement from the independent auditors. The information in this Exhibit A should be read in connection with the audited financial statements included in Exhibit B, including the notes to the financial statements.

	General Reserve		Residential Housing Finance	
	June 30, 2002	June 30, 2001	June 30, 2002	June 30, 2001
ASSETS				
Cash and cash equivalents……………………	$ 27,091	$ 61,530	$ 357,407	$ 90,248
Investment securities…………………………	104,270	75,135	105,121	54,958
Loans receivable, net…………………………	-	-	316,203	270,801
Interest receivable on loans…………………..	-	-	1,784	1,501
Interest receivable on investments…………..	1,327	1,490	2,354	1,046
Mortgage insurance claims receivable………	-	-	100	178
Real estate owned……………………………	-	-	38	44
Capital assets, net……………………………	1,172	1,083	-	-
Other assets…………………………………	941	797	392	609
Total Assets…………………………………..	$ 134,801	$ 140,035	$ 783,399	$ 419,385
LIABILITIES AND NET ASSETS				
Liabilities:				
Bonds payable, net…………………………..	$ -	$ -	$ 374,447	$ 56,588
Interest payable………………………………	-	-	4,915	1,637
Deferred revenue……………………………..	-	137	-	-
Accounts payable and other liabilities……..	2,752	1,969	948	118
Interfund payable (receivable)……………….	1,220	4,183	(24,956)	(24,820)
Funds held for others………………………..	94,273	97,457	5	-
Total liabilities………………………………	98,245	103,746	355,359	33,523
Net Assets:				
Restricted by bond resolution……………….	-	-	204,401	197,671
Restricted by covenant………………………	35,384	35,206	223,639	188,191
Invested in capital assets……………………	1,172	1,083	-	-
Total net assets……………………………	36,556	36,289	428,040	385,862
Total liabilities and net assets………………	$ 134,801	$ 140,035	$ 783,399	$ 419,385

MINNESOTA HOUSING FINANCE AGENCY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

(for specified funds)
(unaudited)
(in thousands)

The following information with respect to the General Reserve and Residential Housing Finance Fund for fiscal years ended June 30, 2002 and June 30, 2001 were prepared by the Agency using information derived from the audited financial statements, and, in the opinion of the Agency, includes information necessary for a fair statement of the financial position and results of operations of those Funds for the periods. This information is not accompanied by a statement from the independent auditors. The information in this Exhibit A should be read in connection with the audited financial statements included in Exhibit B, including the notes to the financial statements.

	General Reserve		Residential Housing Finance	
	June 30, 2002	June 30, 2001	June 30, 2002	June 30, 2001
Revenues:				
Interest earned on loans……………………	$ -	$ -	$ 18,573	$ 19,425
Interest earned on investments……………..	1,398	2,489	12,582	9,124
Administrative reimbursement………………	20,488	17,614	-	-
Fees earned………………………………..	6,881	5,518	160	264
Realized gains on sales of investment securities, net……………………………….	-	-	-	252
Unrealized (losses) gains on securities, net……………………………….	(173)	5,232	984	1,885
Total revenues……………………………….	28,594	30,853	32,299	30,950
Expenses:				
Interest………………………………………	-	-	6,878	3,749
Loan administration and trustee fees……….	-	-	2,698	2,184
Administrative reimbursement………………	-	-	2,832	-
Salaries and benefits…………………………	11,985	10,910	-	-
Other general operating……………………..	5,976	5,407	-	28
Reduction in carrying value of certain low interest rate deferred loans……………….	-	-	4,415	926
Provision for loan losses…………………….	-	-	1,313	1,261
Total expenses……………………………..	17,961	16,317	18,136	8,148
Revenues over (under) expenses…………	10,633	14,536	14,163	22,802
Other charges:				
Non-operating transfer of assets between funds……………………………….	(10,366)	(13,169)	28,015	10,318
Change in net assets……………………….	267	1,367	42,178	33,120
Total net assets, beginning of year…………	36,289	34,922	385,862	352,742
Total net assets, end of year…………………	$ 36,556	$ 36,289	$ 428,040	$ 385,862

MINNESOTA HOUSING FINANCE AGENCY
STATEMENTS OF CASH FLOWS
(for specified funds)
(unaudited)
(in thousands)

The following information with respect to the General Reserve and Residential Housing Finance Fund for fiscal years ended June 30, 2002 and June 30, 2001 were prepared by the Agency using information derived from the audited financial statements, and, in the opinion of the Agency, includes information necessary for a fair statement of the financial position and results of operations of those Funds for the periods. This information is not accompanied by a statement from the independent auditors. The information in this Exhibit A should be read in connection with the audited financial statements included in Exhibit B, including the notes to the financial statements.

	General Reserve		Residential Housing Finance	
	June 30, 2002	June 30, 2001	June 30, 2002	June 30, 2001
Cash flows from operating activities:				
Principal repayments on loans……………..	$ -	$ -	$ 80,886	$ 59,008
Investment in loans…………………………..	-	-	(68,410)	(53,211)
Interest received on loans……………………	-	-	18,995	20,192
Fees received…………………………………	6,599	4,986	160	264
Salaries, benefits and vendor payments…..	(17,362)	(15,355)	(1,865)	(2,256)
Administrative reimbursement from funds……………………………………	20,284	18,725	(2,901)	-
Interest transferred to funds held for others……………………………………	(4,166)	(6,316)	-	-
Deposits into funds held for others…………	25,752	32,230	100	-
Disbursements made from funds held for others……………………………………	(28,936)	(41,082)	(95)	(74)
Interfund transfers and other assets……….	(360)	(446)	(2,044)	640
Net cash provided (used) by operating activities…………………………	1,811	(7,258)	24,826	24,563
Cash flows from noncapital financing activities:				
Proceeds from sale of bonds……………….	-	-	329,555	-
Principal repayment on bonds………………	-	-	(11,035)	(5,095)
Interest paid on bonds and notes…………..	-	-	(2,852)	(3,799)
Financing costs paid related to bonds issued………………………………………..	-	-	(1,281)	-
Interest paid/received between funds………	-	-	1,563	-
Principal paid/received between funds……..	-	-	95	-
Agency contribution to program funds……..	-	-	4,167	(257)
Administrative eimbursement from funds….	-	-	-	(2,594)
Transfer of cash between funds……………	(12,669)	(8,494)	26,151	8,494
Net cash provided (used) by noncapital financing activities……………..	(12,669)	(8,494)	346,363	(3,251)
Cash flows from investing activities:				
Investment in real estate owned……………	-	-	(33)	(65)
Interest received on investments……………	5,584	9,174	8,892	7,983
Procceeds from sale of mortgage insurance claims/real estate owned……..	-	-	341	452
Proceeds from maturity, sale, or transfer of investment securities…………	42,822	52,900	83,173	80,018
Purchase of investment securities…………	(71,987)	-	(131,856)	(58,622)
Purchase of loans between funds…………	-	-	(64,547)	4,111
Net cash provided (used) by investing activities…………………………..	(23,581)	62,074	(104,030)	33,877
Net (decrease) increase in cash and cash equivalents………………………	(34,439)	46,322	267,159	55,189
Cash and cash equivalents, net:				
Beginning of year……………………………	61,530	15,208	90,248	35,059
End of year…………………………………..	$ 27,091	$ 61,530	$ 357,407	$ 90,248

MINNESOTA HOUSING FINANCE AGENCY
STATEMENTS OF CASH FLOWS, continued
(for specified funds)
(unaudited)
(in thousands)

The following information with respect to the General Reserve and Residential Housing Finance Fund for fiscal years ended June 30, 2002 and June 30, 2001 were prepared by the Agency using information derived from the audited financial statements, and, in the opinion of the Agency, includes information necessary for a fair statement of the financial position and results of operations of those Funds for the periods. This information is not accompanied by a statement from the independent auditors. The information in this Exhibit A should be read in connection with the audited financial statements included in Exhibit B, including the notes to the financial statements.

	General Reserve		Residential Housing Finance	
	June 30, 2002	June 30, 2001	June 30, 2002	June 30, 2001
Revenues over (under) expenses…………….	$ 10,633	$ 14,536	$ 14,163	$ 22,802
Adjustments to reconcile revenues over (under) expenses to net cash provided (used) by operating activities:				
Amortization of premiums (discounts) and fees on loans…………………………..	-	-	720	754
Depreciation…………………………………..	562	738	-	-
Realized losses (gains) on sale of securites, net……………………………….	-	-	(157)	(252)
Unrealized gain/loss on investments (mark to market)…………………………….	173	(5,232)	(984)	(1,885)
Provision for loan losses…………………….	-	-	1,313	1,261
Reduction in carrying value of certain low interest rate deferred loans…………………	-	-	4,415	926
Capitalized interest on loans and real estate owned………………………………..	-	-	(15)	(24)
Decrease in loans receivable, excluding loans transferred between funds………..	-	-	12,476	5,797
(Increase) decrease in interest receivable on loans…………………………	-	-	(283)	37
Interest earned on investments……………..	(1,398)	(2,489)	(12,422)	(9,124)
Arbitrage rebate liability……………………..	-	-	(3)	-
(Decrease) increase in deferred revenue…..	(137)	137	-	-
Interest transferred to funds held for others………………………………………..	(4,166)	(6,316)	-	-
Interest expense on bonds and notes……..	-	-	6,878	3,749
Decrease (increase) in accounts payable…	493	224	833	(44)
(Decrease) increase in interfund payable, affecting operating activities only…………………………………………..	(660)	1,111	(2,343)	999
(Decrease) increase in funds held for others………………………………………..	(3,184)	(8,852)	5	(74)
Other…………………………………………..	(505)	(1,115)	230	(359)
Total adjustments…………………………..	(8,822)	(21,794)	10,663	1,761
Net cash provided (used) by operating activities………………………….	$ 1,811	$ (7,258)	$ 24,826	$ 24,563

APPENDIX B

FINANCIAL STATEMENTS

MINNESOTA HOUSING FINANCE AGENCY
Annual Financial Report as of and for the year ended June 30, 2002

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MINNESOTA HOUSING FINANCE AGENCY
Commissioner's Report

The Minnesota Housing Finance Agency (the Agency or "MHFA") continues its strong tradition of meeting Minnesotans' needs for decent, safe, affordable housing and stronger communities.

MHFA is completing the third year under its 1999 strategic plan. The Agency continues to make solid progress on the six objectives listed in that plan: increasing the extent to which housing resources are strategically targeted; developing and using a management tool to evaluate all Agency activity that balances mission, customer service, and revenues and expenses; reengineering the Agency's approach to staff development; implementing the information technology strategic plan; improving performance measurement; and working to increase the visibility of the affordable housing crisis at the national level.

In the latest program year, the Agency increased its investment in affordable housing for Minnesota households by serving over 50,000 households and disbursing $170 million for homeownership programs, $43 million for home improvement and rehabilitation programs, and $169 million for rental housing programs, including new construction, rehabilitation and preservation, and rent assistance. The significant increase over the previous year is attributable to the Agency's full implementation of the administration of housing assistance payments contracts for the HUD-financed portfolio, an activity begun in August 2000.

In addition, the Agency administered the federal housing credit program, managed a state property tax program, and oversaw a multifamily portfolio of over 900 first mortgages and deferred loans. Two-thirds of the families and individuals served by MHFA programs had annual incomes under $16,000.

During fiscal year 2002, MHFA continued to implement the one-time development funding provided by the legislature from 1999-2001 for workforce housing and for families moving from welfare to work. Funding trends include more mixed-income, mixed homeownership and rental developments; new urbanism in-fill development in older central city and suburban neighborhoods; greater use of project-based Section 8 vouchers by local housing agencies; and more supportive housing projects targeting families and individuals facing multiple challenges to self-sufficiency.

MHFA began work on two major technology projects designed to streamline and improve loan processing for customers and staff: one to develop an on-line mortgage system for home purchase and home improvement loans; and one to fully automate and integrate multifamily loan processing.

In the 2002 legislative session, the Governor and the Minnesota legislature confronted a budget shortfall of over $2 billion. The results of the budget balancing and biennial bonding bills were a $216,000 reduction to MHFA's base general fund appropriation and a $16.2 million one-time-only appropriation for two supportive housing developments for homeless veterans and other homeless adults. A state budget shortfall is predicted for the 2004-2005 biennium. MHFA staff is preparing recommendations for reductions in programs funded with state general funds, which constitute approximately 15% of all program funding.

For the first time, Agency financial statements are presented in combined "Agency-wide" form followed by "fund" financial statements presented for its major funds. The combined Agency-wide financial statements are provided to display a comprehensive view of all Agency funds as required by generally accepted accounting principles and reflect totals of similar accounts of various funds. Assets and revenues of the General Reserve and Bond Funds are restricted to uses specifically described in their respective bond resolutions and are pledged for the primary benefit of those respective bondholders and creditors. Assets and revenues of State Appropriated and Federal Appropriated Funds are not pledged to support the debt or general obligations of MHFA.

Since the 2002 Financial Report is such a significant format change from the Agency's traditional presentation of its prior annual financial reports, readers are encouraged to pay particular attention to Management's Discussion and Analysis and Notes to Financial Statements.

The strong financial condition of the Agency continues to be the solid foundation on which MHFA builds the programs and technical capacity necessary to meet the housing needs of families, individuals, and communities throughout the state.

Katherine G. Hadley

Katherine G. Hadley, Commissioner
Minnesota Housing Finance Agency
August 19, 2002

Independent Auditors' Report

To the Members of the
Minnesota Housing Finance Agency

We have audited the accompanying basic financial statements of the business-type activities and each major fund (General Reserve, Housing Development, Rental Housing, Residential Housing Finance, Single Family, State Appropriated, and Federal Appropriated) of the Minnesota Housing Finance Agency (the Agency), a component unit of the State of Minnesota, as of and for the year ended June 30, 2002, 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 an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and each major fund (General Reserve, Housing Development, Rental Housing, Residential Housing Finance, Single Family, State Appropriated, and Federal Appropriated) of the Agency as of June 30, 2002 and the respective changes in its financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in the notes to the basic financial statements, in fiscal year 2002, the Agency adopted Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments;* GASB Statement No. 37, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments: Omnibus;* and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*.

The accompanying required supplementary information, such as management's discussion and analysis on pages 6 through 17, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required 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 accompanying supplementary information, such as the introductory section and the supplemental information section, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying supplementary information, such as the introductory section and the supplemental information section, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Deloitte & Touche LLP

Minneapolis, Minnesota
August 19, 2002

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

This discussion should be read in conjunction with the financial statements and notes thereto.

Introduction

The Minnesota Housing Finance Agency ("MHFA" or the Agency) was created in 1971 by an Act of the Minnesota legislature. It was established to facilitate the construction and rehabilitation of housing in Minnesota for families of low-and moderate-income by providing for mortgage loans, development loans, and technical assistance to qualified housing sponsors to be used for construction and rehabilitation of housing. MHFA is a component unit of the state of Minnesota and receives appropriations from the state legislature, substantially all of which are used to make loans or grants under specified non-bond-financed programs. MHFA also receives funds appropriated by the federal government for similar purposes.

MHFA is authorized to issue bonds and other obligations to fulfill its corporate purposes up to a total outstanding amount of $2.4 billion. Amounts so issued shall not be deemed to constitute a debt of the state of Minnesota or any political subdivision thereof.

MHFA operates two program divisions — Multifamily and Minnesota Homes — which offer housing programs with funding from the sale of tax-exempt and taxable bonds, state and federal appropriations, allocation of the Federal Low Income Tax Credit, Minnesota's Housing Trust Fund and MHFA's endowment funds, Housing Investment Fund and Housing Affordability Fund.

The members of MHFA (hereinafter referred to as the Board) consist of five members appointed at large by the Governor and two ex-officio members (the State Auditor and the Commissioner of Trade and Economic Development).

Discussion of Financial Statements

The financial section consists of three parts — independent auditor's report, management's discussion and analysis (this section), and the basic financial statements. The basic financial statements include two kinds of statements that present different views of the MHFA:

- The first two statements are Agency-wide financial statements that provide information about the MHFA's overall financial position and results of operations. These statements, which are presented on the accrual basis, consist of the Statement of Net Assets and the Statement of Activities. Significant interfund transactions have been eliminated within these Agency-wide statements. Assets and revenues of the separate funds that comprise the Agency-wide financial statements are generally restricted as to use and the reader should not assume they may be used in any aggregate manner.
- The remaining statements are fund financial statements of the MHFA's seven proprietary funds, which are also presented on the accrual basis because of the similarity of their operations to that of business activities.
- The financial statements also include "Notes to Financial Statements" which provide more detailed explanations of certain information contained in the Agency-wide and fund financial statements.
- Additional supplementary information is presented following the Notes to Financial Statements for certain funds of the MHFA, which have been established under the bond resolutions under which MHFA borrows funds for its programs. These funds consist of General Reserve and the bond funds, which are Housing Development, Rental Housing, Residential Housing Finance, and Single Family.

The basic financial statements also include comparative totals as of and for the year ended June 30, 2001. Although not required, these comparative totals are intended to facilitate an enhanced understanding of the MHFA's financial position and results of operations for the current fiscal year in comparison to the prior fiscal year.

Discussion of Individual Funds

General Reserve

The purposes of General Reserve are to maintain sufficient cash for MHFA operations, to hold escrowed funds and to maintain the Housing Endowment Fund. On the Statement of Revenues and Expenses for General Reserve, only the costs of administering MHFA programs are captured. The fees earned are generally related to the administration of the federal housing credit program and contract administration of the Section 8 program for developments not financed by MHFA.

Housing Development and Rental Housing

The majority of the loans presently held in Housing Development and Rental Housing receive Section 8 payments under contracts that are for substantially the same length of time as the mortgage loans.

Inherent risks remain in these portfolios, especially in the multifamily developments without project-based tenant subsidies. Maintaining asset quality remains a high priority for MHFA, so this portfolio continues to receive a significant amount of MHFA staff attention.

All of MHFA's new bond-financed multifamily loans are financed in Rental Housing. A portion of MHFA's Housing Investment Fund and Housing Affordability Fund are also available to finance multifamily developments, primarily those that utilize tax credits and/or MHFA's low-and moderate-income rental program.

Residential Housing Finance

Included within Residential Housing Finance are the bonds issued and outstanding under the resolution, the Bond Restricted Home Improvement, Homeownership, and Multifamily Endowment Funds, and the Restricted by Covenant Alternative Loan Fund consisting of the Housing Investment and Housing Affordability Funds.

Bonds issued to date were for the purpose of funding purchases of single family first mortgage loans. The majority of the single family loans held under these bond issues were FHA insured, or VA or RD guaranteed. In fiscal year 2002, MHFA began to use this bond resolution as the principal source of financing for its bond-financed homeownership programs. MHFA may also issue bonds for its home improvement loan program in this fund. In fiscal year 2002, no bonds were issued for the home improvement loan program; however, MHFA sold taxable bonds in August 2002 to support its home improvement lending.

The Home Improvement Endowment Fund was the principal source of financing for MHFA's home improvement loan programs in fiscal year 2002. MHFA continued to utilize loan repayments to finance new loan activity and also began to internally warehouse loans in anticipation of issuing bonds. No bonds were issued for home improvement loan programs during fiscal year 2002.

The Homeownership Endowment Fund is a source of funding for entry cost housing assistance for first-time homebuyers and below-market interim financing during construction and/or rehabilitation of single family housing.

The Multifamily Endowment Fund is the principal source of funding for innovative multifamily programs that are not candidates for bond financing, such as a tenant services program, a contingency fund, non-profit capacity building, flexible financing, incentive loans and a program for leveraging investments in neighborhoods and communities.

The Housing Investment Fund is currently invested in investment grade housing loans, as defined by MHFA, and may also be used to advance funds to retire high interest rate debt and warehouse loans.

The Housing Affordability Fund includes a reserve, consisting of cash and investment grade housing loans, as defined by MHFA, for future administrative costs and other funds that may be used as a source of funding for bond sale contributions, zero percent deferred multifamily loans,

Discussion of Individual Funds (continued)

low-and moderate-income rental first and subordinated mortgage loans, and other below-market rate loans with higher than ordinary risk factors. It may also be used to advance funds to retire high rate debt and to warehouse loans.

Single Family

This is MHFA's single largest fund, representing over 50% of MHFA's combined assets (excluding appropriated funds), and was historically the principal source of financing for MHFA's bond-financed homeownership programs. In fiscal year 2002, MHFA began to utilize the Residential Housing Finance Fund as its principal source of financing for these programs, because of the increased flexibility afforded by that bond resolution. Single Family funds in excess of bond resolution requirements are budgeted for and may be used to redeem bonds within Single Family and for bond sale contributions in connection with bonds issued under the Residential Housing Finance Bonds Resolution.

The majority of the loans in Single Family have either FHA insurance or a VA or RD guarantee. Delinquency and foreclosure rates continue to track with the Minnesota Mortgage Bankers Association averages.

State and Federal Appropriated Funds

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

The State Appropriated Fund was established to account for funds received from the state legislature, which are to be used for programs for low-to moderate-income persons and families in the form of low-interest loans, no-interest deferred loans, innovative development and other housing-related program costs.

The Federal Appropriated Fund was established to account for funds received from the federal government which are to be used for programs for low-to moderate-income persons and families in the form of no-interest deferred loans, grants, support to other non-profit housing organizations and other housing-related program costs.

General Overview

The following discussion is organized with two primary users in mind. The first primary user may be characterized with a focus on financial information particularly relevant from the perspective of bondholders and creditors of MHFA. The second primary user may be characterized with a focus on financial information particularly relevant to public funds appropriations, and the public policies those funds support.

The Agency defines the term "major funds" to include: General Reserve, Housing Development, Rental Housing, Residential Housing Finance, Single Family, State Appropriated, and Federal Appropriated.

MHFA financial statements are presented in combined "Agency-wide" form followed by "fund" financial statements presented for its major funds. The combined Agency-wide financial statements are provided to display a comprehensive view of all MHFA funds as required by generally accepted accounting principles. The Agency-wide financial statements reflect totals of similar accounts of various funds. However, substantially all of the funds in these accounts are restricted as to use by Agency resolutions or legislation as further described below.

Assets and revenues of the Bond Funds are restricted to uses specifically described in their respective bond resolutions and are pledged for the primary benefit of the respective bondholders and creditors. General Reserve is created under the MHFA bond resolutions as part of the pledge

General Overview (continued)

of the general obligation of MHFA. MHFA covenants in the bond resolutions that it will use the money in General Reserve only for administration and financing of programs in accordance with the policy and purpose of the MHFA enabling legislation, including reserves for the payment of bonds and notes and of loans made from the proceeds thereof.

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

Public funds directly appropriated to MHFA by the State of Minnesota or made available to MHFA from the federal government are restricted by law to specified uses set forth in the state appropriations or federal contracts. Assets and revenues of State Appropriated and Federal Appropriated Funds are not pledged to support the debt or general obligations of MHFA.

In addition to its audited annual financial statements, MHFA publishes quarterly disclosure reports for the Single Family Mortgage and Residential Housing Finance bond resolutions, and semi-annual disclosure reports for the Housing Development and Rental Housing bond resolutions. These disclosure reports can be found on MHFA's web site at www.mhfa.state.mn.us.

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 $000's)

		Agency-wide Total		Change	Combined General Reserve and Bond Funds	
		2002	2001	$	2002	2001
Assets	Cash and Investments	1,178,925	1,153,488	25,437	1,031,650	997,374
	Loans Receivable, Net	1,681,340	1,714,341	(33,001)	1,654,060	1,690,858
	Interest Receivable	18,847	17,454	1,393	15,898	14,076
	Total Assets	2,883,273	2,892,323	(9,050)	2,705,122	2,708,195
Liabilities	Bonds Payable	1,936,188	1,965,662	(29,474)	1,936,188	1,965,662
	Interest Payable	48,347	54,280	(5,933)	48,347	54,280
	Funds Held for Others	94,979	103,140	(8,161)	94,278	97,457
	Total Liabilities	2,093,618	2,130,886	(37,268)	2,092,761	2,125,521
Net Assets	Restricted by Bond Resolution	352,166	358,194	(6,028)	352,166	358,194
	Restricted by Covenant	259,023	223,397	35,626	259,023	223,397
	Restricted By Law	177,294	178,763	(1,469)	—	—
	Total Net Assets	789,655	761,437	28,218	612,361	582,674

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

		Agency-wide Total		Change	Combined General Reserve and Bond Funds	
		2002	2001	$	2002	2001
Revenues	Interest Earned	165,337	183,041	(17,704)	157,187	171,935
	Appropriations Received	177,499	184,201	(6,702)	—	—
	Fees and Reimbursements	8,893	7,086	1,807	28,697	24,700
	Total Revenues	352,298	386,629	(34,331)	187,342	204,829
Expenses	Interest Expense	114,338	120,032	(5,694)	114,338	120,032
	Appropriations Disbursed	150,751	143,901	6,850	—	—
	Fees and Reimbursements	7,118	6,663	455	21,259	20,345
	Payroll, Gen. & Admin.	19,338	17,724	1,614	17,961	16,345
	Loan Loss/Value Adjust's	32,535	17,687	14,848	4,097	2,181
	Total Expenses	324,080	306,007	18,073	157,655	158,903
	Revenues over Expenses	28,218	80,622	(52,404)	29,687	45,926
	Beginning Net Assets	761,437	680,815	80,622	582,674	536,748
	Ending Net Assets	789,655	761,437	28,218	612,361	582,674

Change $	Combined State and Federal Appropriations Funds 2002	2001	Change $
34,276	147,275	156,114	(8,839)
(36,798)	27,280	23,483	3,797
1,822	2,949	3,378	(429)
(3,073)	178,151	184,128	(5,977)
(29,474)	—	—	—
(5,933)	—	—	—
(3,179)	701	5,683	(4,982)
(32,760)	857	5,365	(4,508)
(6,028)	—	—	—
35,626	—	—	—
—	177,294	178,763	(1,469)
29,687	177,294	178,763	(1,469)

Change $	Combined State and Federal Appropriations Funds 2002	2001	Change $
(14,748)	8,150	11,106	(2,956)
—	177,499	184,201	(6,702)
3,997	—	—	—
(17,487)	184,760	199,414	(14,654)
(5,694)	—	—	—
—	150,751	143,901	6,850
914	5,663	3,932	1,731
1,616	1,377	1,379	(2)
1,916	28,438	15,506	12,932
(1,248)	186,229	164,718	21,511
(16,239)	(1,469)	34,696	(36,165)
45,926	178,763	144,067	34,696
29,687	177,294	178,763	(1,469)

FINANCIAL HIGHLIGHTS

When reading the following financial highlights section referring to the General Reserve and Bond Funds, the reader is encouraged to review the Fund Financial Statements included as supplementary information in the 2002 Financial Report.

General Reserve and Bond Funds — Statement of Net Assets

In recent years, the type of assets of General Reserve and Bond Funds has been comparatively stable with loans receivable, investments, cash, cash equivalents, and interest receivable comprising the majority of assets. Equipment, fixtures, furniture, capitalized software costs, and other assets continue to be insignificant in relation to the total General Reserve and Bond Fund assets.

Loans receivable, net is the largest single category of Bond Fund assets; they are limited to housing-related lending that supports a public mission objective. Loans receivable, net decreased 2% to $1,654 million at June 30, 2002 as a result of prepayments of loans exceeding new loan purchases and originations. There are no loan assets in General Reserve.

Investments, cash, and cash equivalents are the next largest categories of assets and are carefully managed to assure adequate resources for future debt service requirements and operating liquidity needs. The combined investments, cash, and cash equivalents increased 3% to $1,032 million at June 30, 2002 due to higher levels of unexpended bond proceeds outstanding at fiscal year end.

Interest receivable on loans and investments is a function of the timing of interest payments and the general level of interest rates. Combined loan and investment interest receivable increased 13% to $15.898 million at June 30, 2002 generally as a result of larger amounts of investment income, which is due in subsequent periods.

Bonds payable, net is the largest single category of liabilities, resulting from debt issued to fund housing-related lending that supports a public mission objective. Bonds payable decreased 1% to $1,936 million at June 30, 2002 resulting from early redemptions made possible by accelerated loan prepayments, and scheduled redemptions, all of which exceeded new debt issuance.

The companion category of interest payable decreased 11% to $48.347 million at June 30, 2002 as a result of reduced interest rates and lower average bonds outstanding.

There is no debt issued in General Reserve, however General Reserve recognizes a significant liability for funds held for others. These funds are routinely collected and held in escrow on behalf of multifamily borrowers pursuant to the loan documents and are for future periodic payments of real property taxes, casualty insurance premiums, and certain operating expenditures. Funds held for others in General Reserve decreased 3% to $94.278 million at June 30, 2002 as a result of loan payoffs and reductions of certain escrow fund requirements.

Accounts payable and other liabilities increased 91% to $13.361 million at June 30, 2002 primarily as a result of additional arbitrage liability on tax-exempt bonds pursuant to federal law and which is payable to the United States Treasury. The MHFA obtains from independent valuation specialists annual calculations of its arbitrage rebate liability.

Interfund payable/receivable exists primarily as a result of administrative and program reimbursements among funds. Most administrative expenses are paid from General Reserve, with the Bond Funds and Appropriated Funds owing an administrative reimbursement to General Reserve for the respective fund's contribution to those administrative expenses.

Net assets of General Reserve and Bond Funds are divided into two primary categories. Net assets Restricted by Bond Resolution are pledged to the payment of bonds, subject to the ability of MHFA to withdraw funds in excess of the amounts required to be maintained under the bond resolutions. Net assets Restricted by Covenant are subject to a covenant with bondholders that the Agency shall use the money in General Reserve (including the Alternative Loan Fund) only for the

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

administration and financing of programs in accordance with the policy and purpose of the act that established MHFA, including reserves for the payment of bonds and of loans made from the proceeds thereof, and shall accumulate and maintain therein such a balance of funds and investments as will be sufficient for the purpose. The Board of the Agency has established investment guidelines for these funds to ensure that funds are preserved to provide financial security for the Agency's bondholders as covenanted in the bond resolutions. Net assets increased 5% to $612.361 million at June 30, 2002 as a result of consistent financial performance of the bond funds and prudent management.

Capital assets, net (equipment, fixtures, furniture, software costs) continue to be insignificant in relation to General Reserve and Bond Fund assets, representing less than 1% of total net assets. Capital assets are recorded in General Reserve.

General Reserve and Bond Funds — Revenues Over Expenses

Revenues over expenses of General Reserve and Bond Funds remained strong in fiscal year 2002, although lower than fiscal year 2001. Compared to the prior year, both total revenues and total expenses were down. Offsetting some of the unfavorable affects of interest revenue declines was the favorable affect of interest expense declines.

The largest revenue component, interest income, was down throughout the year as yields on loans and investments declined to historically low levels. Combined interest revenues of General Reserve and Bond Funds from loans and investments declined 9% to $157.187 million compared to the prior year, consistent with generally declining interest rates. Loan interest was lower in fiscal year 2002 as mortgage loan refinancing caused higher levels of prepayments and, when combined with repayments, exceeded new loan purchases and originations. Investment interest was lower in fiscal year 2002 due to the general decline in interest rates and as more rebateable arbitrage liabilities were recognized compared to the prior year.

Administrative reimbursements to General Reserve from funds increased 14% to $20.488 million compared to prior year, primarily as a result of additional administrative expense reimbursements made possible by legislative approval to use a pooled investment income approach to recovering overhead from state appropriations, and by receiving approval from the federal government for federal indirect cost recoveries.

Other fee income to General Reserve and Bond Funds increased 21% to $8.209 million compared to the prior year, primarily as a result of increased Federal Section 8 contract administration fees and increased federal Housing Assistance Payments administration fees as a result of a larger portfolio of low-income housing units.

Unrealized gains on investments decreased significantly by 82% to $1.458 million compared to the prior year as the average maturity of MHFA's investment portfolio has shortened significantly during fiscal year 2002.

Interest expense of the Bond Funds decreased 5% to $114.338 million compared to the prior year as a result of reduced interest rates on recently issued bonds and lower average bonds outstanding.

Combined expenses for loan administration, trustee fees and administrative reimbursements in the Bond Funds increased modestly by 4% to $21.259 million compared to the prior year. Modest changes in bonds outstanding account for the change in trustee fees and other modest changes in loan assets and investment assets account for the remainder of the increase. Note that $19.804 million of the total administrative fee reimbursement revenue of $20.488 million was interfund charges which were eliminated for purposes of financial reporting in the Agency-wide financial statements.

Salaries, benefits, and other general operating expenses in General Reserve increased 10% to $17.961 million compared to the prior year, largely influenced by employee compensation, health insurance, and benefits increases.

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

Reductions in carrying value of certain low interest rate deferred loans in the Bond Funds increased 377% to $4.415 million compared to prior year, as a result of fewer recoveries on deferred loans previously fully reserved and increased new production of deferred loans.

Provision for loan loss expense in the Bond Funds decreased 125% to $(.318) million, consistent with management's assessment of stable loan portfolio risk and slightly declining loan volume. The allowance for loan losses as a proportion of loans outstanding at June 30, 2002 remained almost unchanged from the prior year.

Non-operating transfers occur as a result of bond sale contributions related to new debt issues, the annual transfer of assets to maintain the Housing Endowment Fund requirement and periodic transfers from the bond funds of amounts in excess of bond resolution requirements.

Combined revenues over expenses for General Reserve and the bond funds decreased 35% to $29.687 million compared to prior year. Although below the level of fiscal year 2001, this level of net revenue over expenses remains consistent with performance of General Reserve and the Bond Funds in recent years. Revenues over expenses in General Reserve, which are in excess of the Housing Endowment Fund requirement, are transferred annually to the Housing Investment and/or Housing Affordability Fund in the Residential Housing Finance Fund for use in housing programs.

The Single Family Bond fund had expenses slightly higher than revenues as a result of approximately $5 million of non-recurring investment income reductions to recognize rebateable arbitrage liabilities payable to the United States Treasury. All other bond funds and General Reserve had revenues in excess of expenses for the year.

Total combined net assets have increased 5% to $612.361 million as a result of revenues over expenses for fiscal year 2002. The net assets of some bond funds have increased while net assets of other bond funds have decreased, as a result of net revenues or net expenses by fund and non-operating transfers of assets between funds.

State and Federal Appropriated Funds — Statement of Net Assets

Assets of the appropriated funds are derived from the appropriation of public funds by the State of Minnesota and funds made available to MHFA by the federal government for housing related policy purposes. The public policy of housing preservation and development is a long-term commitment that commonly requires appropriations received in the current period to be expended over several future years of planned development. This timing difference is the primary reason for the presence of investments, cash, and cash equivalent assets in the Appropriated Funds and for restricted net assets.

Investments, cash, and cash equivalents are the largest category of assets in the Appropriated Funds. The June 30, 2002 combined balance decreased 6% to $147.275 million as a result of reduced appropriations received less expenditures, which are held for future expenditures of program purposes.

Certain state appropriations are expended as housing loans with below market interest rates, resulting in loans receivable. At June 30, 2002 State Appropriated Fund loans receivable increased 16% to $27.280 million reflecting higher volume of state loan program activity.

Interest receivable on investments of 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, 2002 decreased 13% to $2.949 million as a result of declining investment yields and lower average investment balances.

Accounts payable and other liabilities in the Federal Appropriated Fund represent amounts payable to MHFA for HUD Section 236 interest reduction payments and Section 8 FA/FAF savings. The balance payable at June 30, 2002 was $.743 million.

State and Federal Appropriated Funds — Statement of Net Assets (continued)

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 due to MHFA. At June 30, 2002 the combined net interfund receivable was $.587 million.

Funds held for others represent excess federal housing assistance payments received for the administration of the Section 8 program, and the interest income earned on those unexpended funds. At June 30, 2002 the balance of funds held for the federal government declined 88% to $.701 million reflecting HUD's draw down of funds held during the year.

All of the net assets of the Appropriated Funds are restricted by law for use with housing programs only and are not pledged to support the bondholders or creditors of MHFA. The combined net assets of the Appropriated Funds remained relatively constant at $177.294 million as of June 30, 2002 compared to the prior period, reflecting new appropriations received that approximated appropriations disbursed during fiscal year 2002.

State and Federal Appropriated Funds — Revenues Over Expenses

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

The largest revenue category is appropriations received, and is a function of the fiscal, legislative, and political environment of the State of Minnesota and the federal government. The combined appropriations received decreased slightly to $177.499 million at June 30, 2002, reflecting a continuing commitment to housing by the state and federal government.

Interest income from investments was down throughout the year as interest rates in general declined to historically low levels. Investment assets were also down during the year contributing to the combined interest income decline of 27% to $8.101 million at June 30, 2002.

Loan interest income from State Appropriations loan assets continues to be minimal as relatively few loans are interest bearing.

Unrealized gains on investments decreased significantly by 122% to $(.889) million compared to the prior year as the average maturity of MHFA's investment portfolio has shortened significantly during fiscal year 2002.

Administrative reimbursements of expenses to General Reserve increased 44% to $5.618 million compared to the prior year, primarily as a result of additional administrative expense reimbursements allowed from pooling investment income from state appropriated programs. The current year increase is non-recurring as it results from a legislative change, effective in the fiscal year ended June 30, 2002, that allows the reimbursement of administrative expenses incurred in prior years that previously could not be recovered. The Agency also received approval from the federal government for federal indirect cost recoveries.

Combined appropriations disbursed increased 5% to $150.751 million compared to prior year, reflecting additional efforts to support housing policy objectives.

Increased expenditures of State Appropriated Funds for below market and zero-percent interest rate loans resulted in greater reductions in carrying value of certain loans. Reductions of carrying value increased 83% to $28.438 million compared to prior year, as a result of making more fully reserved deferred loans for low- and moderate-income housing.

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

Other general operating expenses represent fees for professional and technical support to implement and administer certain state housing programs. Other general operating expense remained relatively unchanged at $1.377 million at June 30, 2002.

Combined revenues over expenses of the Appropriated Funds declined 104% to $(1.469) million compared to prior year, reflecting disbursements of appropriations that were carried over from the prior year. Ultimately, the entire State and Federal Appropriated Funds' net assets will be expended for housing.

Significant Long-term Debt Activity

MHFA is a significant debt issuer, having outstanding at June 30, 2002 long-term debt totaling $1,621 million and short-term debt totaling $315 million, net of deferred finance and issuance costs. MHFA Bond Funds are held by a trustee, who ensures that bond resolution requirements are met, including payments of debt service. At June 30, 2002, amounts held by the trustee in principal, interest and redemption accounts represented full funding of debt service requirements to that date. Bond resolutions also generally require funding of debt service reserve and insurance reserve accounts. At June 30, 2002, amounts held by the trustee in such reserve and revenue accounts represented full funding of those requirements to that date.

Most of the debt issued by MHFA is tax-exempt and is issued under the Internal Revenue Code and Treasury Regulations governing either mortgage revenue bonds or residential rental projects. MHFA's ability to issue tax-exempt debt is further limited by MHFA's share of the state's allocation of the private activity volume cap, which is set in Minnesota law. MHFA's ability to issue tax-exempt debt is also limited by the federal rule (commonly known as the 10-year rule) that prohibits refunding of mortgage prepayments received more than ten years after the date of issuance of the bonds. When economic conditions favor it, MHFA issues limited amounts of taxable debt in order to supplement its tax-exempt authority and for lending under programs where federal restrictions are inconsistent with the program requirements. Board policy governs the process MHFA follows to issue debt and State statute limits MHFA's outstanding debt to $2.4 billion.

Both Standard and Poor's Ratings Services and Moody's Investors Service continue to affirm general obligation ratings for MHFA of AA+ and Aa1 respectively. MHFA's bond ratings are separate from, and are not directly dependent on, ratings on debt issued by the State of Minnesota. In addition to ongoing reporting to and communications with the bond rating services, periodically MHFA prepares a comprehensive study of the creditworthiness and financial strength of its funds (excluding the appropriated funds). Information obtained from the analysis is presented to the bond rating services and is used by MHFA staff to make decisions about management of assets and debt.

MHFA continually investigates and utilizes available debt management techniques to achieve its goals of reducing interest expense and preserving the maximum amount of bonding authority.

During the year, MHFA completed the issuance/remarketing of 14 series of bonds aggregating to $515 million. This is compared to the combined issuance and remarketing of 16 series totaling $356 million the previous year. In recent years, MHFA has aggressively retired high interest rate debt. Bonds are issued as capital is needed for program purposes, as opportunities for economic refundings occur, and for preservation of bonding authority.

A total of $546 million in principal payments were made during the year. Of this amount, $262 million was retired prior to the scheduled maturity date using a combination of optional and special redemption provisions.

Significant Topics Which Affect Financial Condition and/or Operations

Legislative Actions:

The Minnesota Legislature has recently enacted laws to address a projected shortfall in the budget of the State of Minnesota for the current biennium. The enacted legislation places certain limitations on State agencies' (including MHFA) ability to enter into contracts for services and also imposes a moratorium on future employee hires through June 30, 2003. MHFA received relief from many of these limitations, and through June 30, 2002 there has been no material adverse financial impact as a result of the enacted legislation. Unfavorable changes in state and federal legislation, statutes, administration, funding objectives, housing policy, and fiscal policy represent an ever-present risk to MHFA's attainment of mission and financial objectives.

Additional Information

Questions and inquiries may be directed to either Mr. Mike LeVasseur or Ms. Sharon Spahn Bjostad at Minnesota Housing Finance Agency, 400 Sibley Street, Suite 300, St. Paul, MN 55101 (651-296-7608).

MINNESOTA HOUSING FINANCE AGENCY
Agency-wide Financial Statements
Statement of Net Assets (in thousands)
June 30, 2002 (with comparative totals for June 30, 2001)

		2002 Agency-wide Total	2001 Agency-wide Total
Assets	Cash and cash equivalents	$ 765,873	$ 855,285
	Investment securities	413,052	298,203
	Loans receivable, net	1,681,340	1,714,341
	Interest receivable on loans	9,352	8,630
	Interest receivable on investments	9,495	8,824
	Mortgage insurance claims receivable	497	1,051
	Real estate owned	497	942
	Capital assets, net	1,172	1,083
	Other assets	1,995	3,964
	Total assets	$2,883,273	$2,892,323
Liabilities	Bonds payable, net	$1,936,188	$1,965,662
	Interest payable	48,347	54,280
	Deferred revenue	—	212
	Accounts payable and other liabilities	14,104	7,592
	Interfund payable (receivable)	—	—
	Funds held for others	94,979	103,140
	Total liabilities	2,093,618	2,130,886
	Commitments and contingencies		
Net Assets	Restricted by bond resolution	352,166	358,194
	Restricted by covenant	259,023	223,397
	Restricted by law	177,294	178,763
	Invested in capital assets	1,172	1,083
	Total net assets	789,655	761,437
	Total liabilities and net assets	$2,883,273	$2,892,323

See accompanying notes to financial statements.

MINNESOTA HOUSING FINANCE AGENCY
Agency-wide Financial Statements
Statement of Activities (in thousands)
Year ended June 30, 2002 (with comparative totals for the year ended June 30, 2001)

		2002 Agency-wide Total	2001 Agency-wide Total
Revenues	Interest earned on loans	$117,547	$121,979
	Interest earned on investments	47,790	61,062
	Appropriations received	177,499	184,201
	Administrative reimbursement	684	—
	Fees earned	8,209	7,086
	Unrealized gains on securities, net	569	12,301
	Total revenues	352,298	386,629
Expenses	Interest	114,338	120,032
	Loan administration and trustee fees	7,118	6,663
	Salaries and benefits	11,985	10,910
	Other general operating	7,353	6,814
	Appropriations disbursed	150,751	143,901
	Reduction in carrying value of certain low interest rate deferred loans	32,853	16,432
	Provision for loan losses	(318)	1,255
	Total expenses	324,080	306,007
	Revenues over expenses	28,218	80,622
Other changes	Non-operating transfer of assets between funds	—	—
	Change in net assets	28,218	80,622
Net Assets	Total net assets, beginning of year	761,437	680,815
	Total net assets, end of year	$789,655	$761,437

See accompanying notes to financial statements.

MINNESOTA HOUSING FINANCE AGENCY
Fund Financial Statements
Statement of Net Assets (in thousands)
Proprietary Funds
June 30, 2002 (with comparative totals for June 30, 2001)

			Bond Funds			
		General Reserve	Housing Development	Rental Housing	Residential Housing Finance	Single Family
Assets	Cash and cash equivalents	$ 27,091	$ 795	$ 38,699	$357,407	$ 335,626
	Investment securities	104,270	8,230	36,710	105,121	17,701
	Loans receivable, net	—	26,444	242,457	316,203	1,068,956
	Interest receivable on loans	—	191	1,733	1,784	5,644
	Interest receivable on investments	1,327	52	1,446	2,354	1,367
	Mortgage insurance claims receivable	—	—	—	100	397
	Real estate owned	—	—	—	38	459
	Capital assets, net	1,172	—	—	—	—
	Other assets	941	—	10	392	5
	Total assets	$134,801	$35,712	$321,055	$783,399	$1,430,155
Liabilities	Bonds payable, net	$ —	$32,131	$235,608	$374,447	$1,294,002
	Interest payable	—	933	5,752	4,915	36,747
	Deferred revenue	—	—	—	—	—
	Accounts payable and other liabilities	2,752	2	194	948	9,465
	Interfund payable (receivable)	1,220	—	21,105	(24,956)	3,218
	Funds held for others	94,273	—	—	5	—
	Total liabilities	98,245	33,066	262,659	355,359	1,343,432
	Commitments and contingencies					
Net Assets	Restricted by bond resolution	—	2,646	58,396	204,401	86,723
	Restricted by covenant	35,384	—	—	223,639	—
	Restricted by law	—	—	—	—	—
	Invested in capital assets	1,172	—	—	—	—
	Total net assets	36,556	2,646	58,396	428,040	86,723
	Total liabilities and net assets	$134,801	$35,712	$321,055	$783,399	$1,430,155

See accompanying notes to financial statements.

Appropriated Funds			
State Appropriated	Federal Appropriated	2002 Total	2001 Total
$ 4,457	$ 1,798	$ 765,873	$ 855,285
132,104	8,916	413,052	298,203
27,280	—	1,681,340	1,714,341
—	—	9,352	8,630
2,801	148	9,495	8,824
—	—	497	1,051
—	—	497	942
—	—	1,172	1,083
2	645	1,995	3,964
$166,644	$11,507	$2,883,273	$2,892,323
$ —	$ —	$1,936,188	$1,965,662
—	—	48,347	54,280
—	—	—	212
—	743	14,104	7,592
(1,043)	456	—	—
—	701	94,979	103,140
(1,043)	1,900	2,093,618	2,130,886
—	—	352,166	358,194
—	—	259,023	223,397
167,687	9,607	177,294	178,763
—	—	1,172	1,083
167,687	9,607	789,655	761,437
$166,644	$11,507	$2,883,273	$2,892,323

MINNESOTA HOUSING FINANCE AGENCY
Fund Financial Statements
Statement of Revenues, Expenses and Changes in Net Assets (in thousands)
Proprietary Funds
Year ended June 30, 2002 (with comparative totals for the year ended June 30, 2001)

			Bond Funds			
		General Reserve	Housing Development	Rental Housing	Residential Housing Finance	Single Family
Revenues	Interest earned on loans	$ —	$ 3,536	$18,704	$ 18,573	$76,685
	Interest earned on investments	1,398	700	3,318	12,582	21,691
	Appropriations received	—	—	—	—	—
	Administrative reimbursement	20,488	—	—	—	—
	Fees earned	6,881	84	1,084	160	—
	Unrealized gains (losses) on securities, net	(173)	(38)	284	984	401
	Total revenues	28,594	4,282	23,390	32,299	98,777
Expenses	Interest	—	4,046	16,771	6,878	86,643
	Loan administration and trustee fees	—	28	301	2,698	4,046
	Administrative reimbursement	—	384	2,031	2,832	8,939
	Salaries and benefits	11,985	—	—	—	—
	Other general operating	5,976	—	—	—	—
	Appropriations disbursed	—	—	—	—	—
	Reduction in carrying value of certain low interest rate deferred loans	—	—	—	4,415	—
	Provision for loan losses	—	(1,051)	(730)	1,313	150
	Total expenses	17,961	3,407	18,373	18,136	99,778
	Revenues over (under) expenses	10,633	875	5,017	14,163	(1,001)
Other changes	Non-operating transfer of assets between funds	(10,366)	(13,482)	240	28,015	(4,407)
	Change in net assets	267	(12,607)	5,257	42,178	(5,408)
Net Assets	Total net assets, beginning of year	36,289	15,253	53,139	385,862	92,131
	Total net assets, end of year	$ 36,556	$ 2,646	$58,396	$428,040	$86,723

See accompanying notes to financial statements.

Appropriated Funds			
State Appropriated	Federal Appropriated	2002 Total	2001 Total
$ 49	$ —	$117,547	$121,979
8,242	(141)	47,790	61,062
52,932	124,567	177,499	184,201
—	—	20,488	17,614
—	—	8,209	7,086
(950)	61	569	12,301
60,273	124,487	372,102	404,243
—	—	114,338	120,032
45	—	7,118	6,663
5,618	—	19,804	17,614
—	—	11,985	10,910
1,377	—	7,353	6,814
26,997	123,754	150,751	143,901
28,438	—	32,853	16,432
—	—	(318)	1,255
62,475	123,754	343,884	323,621
(2,202)	733	28,218	80,622
—	—	—	—
(2,202)	733	28,218	80,622
169,889	8,874	761,437	680,815
$167,687	$ 9,607	$789,655	$761,437

MINNESOTA HOUSING FINANCE AGENCY
Fund Financial Statements
Statement of Cash Flows (in thousands)
Proprietary Funds
Year ended June 30, 2002 (with comparative totals for the year ended June 30, 2001)

			Bond Funds			
		General Reserve	Housing Development	Rental Housing	Residential Housing Finance	Single Family
Cash flows from operating activities	Principal repayments on loans	$ —	$ 3,495	$ 24,357	$ 80,886	$ 207,704
	Investment in loans	—	—	(3,830)	(68,410)	(212,985)
	Interest received on loans	—	3,600	17,879	18,995	75,767
	Other operating	—	—	—	—	—
	Fees received	6,599	74	1,019	160	—
	Salaries, benefits and vendor payments	(17,362)	(93)	(295)	(1,865)	(4,037)
	Appropriations received	—	—	—	—	—
	Appropriations disbursed	—	—	—	—	—
	Administrative reimbursement from funds	20,284	(384)	(1,983)	(2,901)	(8,930)
	Interest transferred to funds held for others	(4,166)	—	—	—	—
	Deposits into funds held for others	25,752	—	—	100	—
	Disbursements made from funds held for others	(28,936)	—	—	(95)	—
	Interfund transfers and other assets	(360)	—	95	(2,044)	2,045
	Net cash provided (used) by operating activities	1,811	6,692	37,242	24,826	59,564
Cash flows from noncapital financing activities	Proceeds from sale of bonds		—	4,800	329,555	181,130
	Principal repayment on bonds	—	(34,065)	(29,320)	(11,035)	(471,545)
	Interest paid on bonds and notes	—	(4,415)	(14,919)	(2,852)	(92,154)
	Financing costs paid related to bonds issued	—	—	(48)	(1,281)	(1,483)
	Interest paid/received between funds	—	—	(1,563)	1,563	—
	Principal paid/received between funds	—	—	(95)	95	—
	Premium paid on redemption of bonds.	—	(230)	—	—	—
	Agency contribution to program funds	—	—	240	4,167	(4,407)
	Transfer of cash between funds	(12,669)	(13,482)	—	26,151	—
	Net cash provided (used) by noncapital financing activities	(12,669)	(52,192)	(40,905)	346,363	(388,459)
Cash flows from investing activities	Investment in real estate owned	—	—	—	(33)	(548)
	Interest received on investments	5,584	694	3,185	8,892	26,587
	Proceeds from sale of mortgage insurance claims/real estate owned	—	—	—	341	5,194
	Proceeds from maturity, sale or transfer of investment securities	42,822	3,146	14,435	83,173	2,375
	Purchase of investment securities	(71,987)	(8,200)	(36,841)	(131,856)	(5,938)
	Purchase of loans between funds	—	25,496	—	(64,547)	39,051
	Net cash provided (used) by investing activities	(23,581)	21,136	(19,221)	(104,030)	66,721
	Net increase (decrease) in cash and cash equivalents	(34,439)	(24,364)	(22,884)	267,159	(262,174)
Cash and cash equivalents	Beginning of year	61,530	25,159	61,583	90,248	597,800
	End of year	$ 27,091	$ 795	$ 38,699	$ 357,407	$ 335,626

See accompanying notes to financial statements.

Appropriated Funds			
State Appropriated	Federal Appropriated	2002 Total	2001 Total
$ 8,096	$ —	$ 324,538	$ 241,567
(39,740)	—	(324,965)	(242,792)
49	—	116,290	122,217
(1,377)	—	(1,377)	(1,379)
—	—	7,852	6,631
(45)	—	(23,697)	(22,042)
52,932	124,432	177,364	178,221
(26,487)	(124,141)	(150,628)	(143,177)
(5,402)	—	684	—
—	(77)	(4,243)	(6,316)
—	751	26,603	35,526
—	(6,305)	(35,336)	(45,226)
185	—	(79)	(359)
(11,789)	(5,340)	113,006	122,871
—	—	515,485	356,495
—	—	(545,965)	(367,670)
—	—	(114,340)	(112,596)
—	—	(2,812)	(1,906)
—	—	—	—
—	—	—	—
—	—	(230)	—
—	—	—	—
—	—	—	—
—	—	(147,862)	(125,677)
—	—	(581)	(566)
8,656	443	54,041	61,038
—	—	5,535	5,237
34,110	2,378	182,439	215,959
(35,421)	(5,747)	(295,990)	(137,608)
—	—	—	—
7,345	(2,926)	(54,556)	144,060
(4,444)	(8,266)	(89,412)	141,254
8,901	10,064	855,285	714,031
$ 4,457	$ 1,798	$ 765,873	$ 855,285

(Continued)

MINNESOTA HOUSING FINANCE AGENCY
Fund Financial Statements
Statement of Cash Flows (in thousands)
Proprietary Funds
Year ended June 30, 2002 (with comparative totals for the year ended June 30, 2001)

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

	General Reserve	Bond Funds: Housing Development	Bond Funds: Rental Housing	Bond Funds: Residential Housing Finance	Bond Funds: Single Family
Revenues over (under) expenses	$10,633	$ 875	$ 5,017	$ 14,163	$ (1,001)
Adjustments to reconcile revenues over (under) expenses to net cash provided (used) by operating activities:					
Amortization of premiums (discounts) and fees on loans	—	—	(87)	720	(1,214)
Depreciation	562	—	—	—	—
Realized losses (gains) on sale of securities, net	—	(65)	38	(157)	(3)
Unrealized losses (gains) on securities, net	173	38	(284)	(984)	(401)
Provision for loan losses	—	(1,051)	(730)	1,313	150
Reduction in carrying value of certain low interest rate and/or deferred loans	—	—	—	4,415	—
Capitalized interest on loans and real estate owned	—	—	(63)	(15)	(263)
Decrease (increase) in loans receivable, excluding loans transferred between funds	—	3,495	20,527	12,476	(5,281)
Decrease (increase) in interest receivable on loans	—	(96)	(807)	(283)	464
Interest earned on investments	(1,398)	(593)	(3,467)	(12,422)	(26,765)
Arbitrage rebate liability	—	(42)	111	(3)	5,172
Decrease in deferred revenue	(137)	(10)	(65)	—	—
Interest transferred to funds held for others	(4,166)	—	—	—	—
Interest expense on bonds and notes	—	4,046	16,771	6,878	86,643
Increase (decrease) in accounts payable	493	(65)	5	833	9
Increase (decrease) in interfund payable, affecting operating activities only	(660)	160	276	(2,343)	2,054
Increase (decrease) in funds held for others	(3,184)	—	—	5	—
Other	(505)	—	—	230	—
Total adjustments	(8,822)	5,817	32,225	10,663	60,565
Net cash provided (used) by operating activities	$ 1,811	$ 6,692	$37,242	$ 24,826	$ 59,564

See accompanying notes to financial statements.

Appropriated Funds			
State Appropriated	Federal Appropriated	2002 Total	2001 Total
$ (2,202)	$ 733	$ 28,218	$ 80,622
—	—	(581)	112
—	—	562	738
—	—	(187)	(427)
950	(61)	(569)	(12,301)
—	—	(318)	1,255
28,438	—	32,853	16,432
—	—	(341)	(394)
(31,644)	—	(427)	(1,225)
—	—	(722)	648
(8,242)	141	(52,746)	(63,660)
—	—	5,238	3,184
—	—	(212)	(5,454)
—	(77)	(4,243)	(6,316)
—	—	114,338	120,032
—	157	1,432	(14)
866	(544)	(191)	611
—	(5,554)	(8,733)	(9,700)
45	(135)	(365)	(1,272)
(9,587)	(6,073)	84,788	42,249
$(11,789)	$(5,340)	$113,006	$122,871

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2002

Nature of Business and Fund Structure

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

The Agency is authorized to issue bonds and other obligations to fulfill its corporate purposes up to a total outstanding amount of $2.4 billion. Amounts so issued shall not be deemed to constitute a debt of the state of Minnesota or any political subdivision thereof.

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

General Reserve

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

Housing Development and Rental Housing

Bond proceeds for the multifamily housing programs are currently maintained under two separate bond resolutions: Housing Development and Rental Housing. Loans are secured by first mortgages on real property.

Residential Housing Finance

Included within Residential Housing Finance are the bonds issued and outstanding under the Residential Housing Finance Bonds Resolution, the bond resolution restricted Home Improvement, Homeownership and Multifamily Endowment Funds, and the Alternative Loan Fund, which is restricted by a covenant with bondholders.

Bonds

The series bonds outstanding were issued to fund purchases of single family first mortgage loans. The Agency anticipates that future series will finance other types of program obligations, such as home improvement loans, in addition to single family mortgage loans.

Assets of the series bonds issued and outstanding under the resolution and of the three endowment funds described below are pledged to the repayment of Residential Housing Finance bondholders.

Home Improvement Endowment Fund

This fund is a principal source of funding for home improvement loans. Home improvement loans in excess of $5,000 are generally secured by a second mortgage.

Homeownership Endowment Fund

This fund is a source of funding for entry cost housing assistance programs for first-time homebuyers and below-market interim financing during construction and/or rehabilitation of single family housing.

Nature of Business and Fund Structure (continued)

Multifamily Endowment Fund

This fund is the principal source of funding for innovative multifamily programs that are not candidates for bond financing such as a tenant services program, a contingency fund, non-profit capacity building, flexible financing, incentive loans and a program for leveraging investments in neighborhoods and children.

Alternative Loan Fund

An Alternative Loan Fund has been established in Residential Housing Finance to deposit funds in either the Housing Investment Fund or Housing Affordability Fund, which were otherwise available to be transferred to General Reserve. The Alternative Loan Fund is not pledged to the payment of the Residential Housing Finance bonds, or any other specific debt obligation of the Agency, and is generally available to pay any debt obligation of the Agency.

The Alternative Loan Fund, Housing Investment Fund, is currently invested in investment grade loans, as defined by the Agency, and may also be used to advance funds to retire high interest rate debt and to warehouse loans.

The Alternative Loan Fund, Housing Affordability Fund, includes a reserve consisting of cash and investment grade loans, as defined by the Agency, for future Agency administrative costs and other funds that may be used as a source of funding for bond sale contributions, zero-percent deferred multifamily loans, low-and moderate-income rental first and subordinated mortgage loans, and other below market-rate loans with higher than ordinary risk factors. It may also be used to advance funds to retire high rate debt and to warehouse loans.

Single Family

Bonds issued prior to November 2001 for the bond-financed homeownership programs are maintained primarily under Single Family. These loans are secured by first mortgages on real property. Since November 2001, bonds issued for homeownership programs have been issued under Residential Housing Finance and the Agency generally expects this practice to continue. Agency contributions to bonds issued under Residential Housing Finance may be made from Single Family.

Each respective bond resolution described above prescribes the accounting for bond proceeds, debt service requirements of the bond indebtedness, permitted investments, and eligible loans to be financed from the bond proceeds.

State Appropriated

The State Appropriated fund was established to account for funds received from the state legislature which are to be used for programs for low- to moderate-income persons and families in the form of low-interest loans, no-interest deferred loans, innovative development and other housing-related program costs. The net assets of the State Appropriated fund are not available to support the bondholders or creditors of the Agency.

Federal Appropriated

The Federal Appropriated fund was established to account for funds received from the federal government which are to be used for programs for low- to moderate-income persons and families in the form of no-interest deferred loans, grants, support to other non-profit housing organizations and other housing-related program costs. The net assets of the Federal Appropriated fund are not available to support the bondholders or creditors of the Agency.

Summary of Significant Accounting Policies

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

Basis of Accounting

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

Generally Accepted Accounting Principles

The Agency has adopted Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting.* The Agency has elected to apply 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 Pronouncement

In June 1999, GASB issued Statement No. 34, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments,* as amended by GASB Statement No. 37, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments: Omnibus,* and by GASB Statement No. 38, *Certain Financial Statement Disclosures.* GASB Statement No. 34, as amended and commonly referred to as the new reporting model, retained much of the old reporting and disclosure requirements under the prior reporting model, with certain modifications and newly added information. Applicable portions of this statement were implemented by the Agency for the year ended June 30, 2002 and the most significant effects on the Agency's annual financial statements were the addition of Management's Discussion and Analysis as required supplementary information, and the elimination of interfund administrative fees for purposes of financial reporting in the Agency-wide statement of activities. The elimination of interfund activity had no affect on the amounts of Agency-wide net assets.

Cash and Cash Equivalents

Cash equivalents may include commercial paper, money market funds, repurchase agreements, investment agreements and any other investments, primarily US treasuries and agencies, which have 90 or less days remaining to maturity at the time of purchase.

Investment Securities

The Agency carries investment securities at fair market value and records unrealized gains and losses on investment securities as a result of changes in market valuations.

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.

Summary of Significant Accounting Policies (continued)

For homeownership, home improvement and home energy loans, the Agency establishes varying amounts of reserves depending upon the number of delinquent loans, the number of days delinquent and the type of insurance coverage in force: Federal Housing Administration (FHA) insurance, Rural Development (RD) guarantee, Veterans Administration (VA) guarantee, private mortgage insurance and pool or self-insurance.

Actual losses incurred are charged against the allowance for loan losses; recoveries are added to the allowance for loan losses. Management believes the allowances for loan losses adequately reserve for probable losses inherent in the loan portfolios as of June 30, 2002.

Premiums, discounts or fees resulting from the purchase or origination of mortgage loans at other than face value are amortized using the effective interest method.

During the fiscal year, flooding impacted several regions in the state of Minnesota. The Agency undertook various survey methods to determine the extent of the impact to its loan portfolio. As a result of its findings, the Agency believes its allowances for loan loss are adequate at this time. However, the ultimate impact of the flooding may not be known for some time.

Interest Receivable on Loans

The Agency accrues interest on its amortizing loans until they become 90 days or more delinquent in the case of multifamily loans, or until they become 'real estate owned' for all other loans.

Mortgage Insurance Claims Receivable

Mortgages that are FHA insured or VA guaranteed, and for which insurance claims have been filed, are included in this category.

Real Estate Owned

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

Bonds Payable, Net

Bonds payable are carried at their unpaid principal balances, net of unamortized deferred financing costs. Deferred financing costs are amortized using the effective interest method in the Single Family and Residential Housing Finance funds. In the Housing Development and Rental Housing funds, deferred financing costs are amortized using the bonds outstanding method due to the unpredictable nature of prepayments of multifamily loans.

Interfund Payable (Receivable)

Interfund payable (receivable) primarily reflects pending transfers of cash and assets between funds. The more significant activities that flow through this fund may include funds advanced for purposes of optionally redeeming bonds when economically advantageous, funds advanced for loan warehousing, administrative fees receivable and payable between funds, and certain mortgage payments received and pending transfer to their respective funds.

Funds Held for Others

Funds held for others are primarily escrow amounts held by the Agency on behalf of multifamily housing developments where the Agency holds the first mortgages. These amounts are held under the terms of the related loans and federal regulations regarding subsidized housing. Investment income relating to these funds is credited directly to the escrow funds; it is not included in the investment income of General Reserve. Also included in funds held for others are funds pending disbursement to HUD, such as McKinney Act savings and Section 8 payments plus monitoring fees collected and pending disbursement in connection with the Class 4(d) Real Estate

Summary of Significant Accounting Policies (continued)

Tax Assessment Legislation. 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 funds restricted within the respective bond resolution due to the specific provisions of the bond resolutions.

Restricted by Covenant

Restricted By Covenant Net Assets represents those funds in General Reserve and those funds that were otherwise available to be transferred to General Reserve. Under the Agency's bond resolutions, these are pledged as security for the Agency's general obligation pledge. The Agency's Board is responsible for establishing the investment guidelines for these funds.

Restricted by Law

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

Invested in Capital Assets

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

Agency-wide Total

The Agency-wide Total columns reflect the totals of the similar accounts of the various funds. Since the assets of certain of the funds are restricted by either the related bond resolutions or legislation, the totaling of the accounts, including assets therein, is for convenience only and does not indicate that the combined assets are available in any manner other than that provided for in either the bond resolutions or the legislation for the separate funds or groups of funds. The totals for fiscal year 2001 are for comparative purposes only.

Administrative Reimbursement

The Agency's administrative operations are funded primarily by a monthly transfer from each of the bond funds to General Reserve in the amount of 60 basis points annually based on adjusted assets. Adjusted assets are defined as total assets plus the reserve for loan loss plus unearned discounts on loans minus the proceeds of short-term debt minus premiums on loans.

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

For programs funded by federal appropriations, the Agency recovers the cost of administering programs through an approved federal indirect cost recovery rate applied to direct salary disbursements. Certain other direct costs are also recovered. Indirect costs from the federal government in the amount of $684,000 are reflected as administrative reimbursement revenues in the Agency-wide statement of activities.

Administrative reimbursements in the amount of $19,804,000 between the Agency's funds have been eliminated from the respective administrative reimbursement revenues and expenses line items for purposes of presentation in the Agency-wide statement of activities.

Fees Earned

Fees earned consists mainly of fees related to the financing and administration of Section 8 properties, including administration of a HUD-owned Section 8 portfolio, fees in connection with operating the Low Income Housing Tax Credits program and application fees for administering the Class 4(d) Real Estate Tax Assessment Legislation. Fee income is recorded as it is earned.

Summary of Significant Accounting Policies (continued)

Reduction in Carrying Value of Certain Low Interest Rate Deferred Loans

The carrying value of certain Housing Affordability Fund loans, Endowment Fund loans and State Appropriated loans which are originated at interest rates ranging from 0%-5%, and for which repayment is deferred for up to 30 years, is written down to zero at the time of origination by providing for a Reduction in Carrying Value of Certain Low Interest Rate Deferred Loans because of the nature of these loans and the risk associated with them. Certain of these loans may be forgiven at maturity.

Other Changes

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

Non-operating transfer of assets between funds

Non-operating transfers occur as a result of bond sale contributions related to new debt issues, the annual transfer of assets to maintain the Housing Endowment Fund requirement, and periodic transfers from the bond funds of assets in excess of the bond resolution requirements.

Non-Cash Activities

Transfers from loans receivable to mortgage insurance claims receivable and ‘real estate owned’ for fiscal year 2002 were $.22 million and $3.54 million, for Residential Housing Finance and Single Family, respectively.

Use of Estimates

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

Related Party Transactions

The Alternative Loan Fund in Residential Housing Finance continues to reflect outstanding advances made in fiscal year 1997 for the purpose of optionally redeeming bonds in Rental Housing. The advances were made in order to take advantage of economically favorable conditions for redeeming the bonds. The advances continue to be repaid according to the original debt repayment schedule. The advances are recorded in Interfund Payable (Receivable).

Income Taxes

The Agency, as a component unit of the state of Minnesota, is exempt from federal and state income taxes. Accordingly, no provision for income taxes is necessary.

Rebateable Arbitrage

Arbitrage earnings that are owed to the United States Treasury are recorded in Accounts Payable and based on estimated calculations performed by an independent valuation specialist on an ongoing basis. This liability does not reflect any unrealized appreciation or depreciation as a result of recording investment securities at fair market value.

Cash, Cash Equivalents and Investment Securities

Cash and cash equivalents are stated at cost which approximates market and are composed of the following at June 30, 2002 (in thousands):

Cash and Cash Equivalents

Funds	Deposits	Repurchase Agreements	Investment Agreements	Combined Totals
General Reserve	$ 90	$27,001	$ —	$ 27,091
Housing Development	39	756	—	795
Rental Housing	175	6,323	32,201	38,699
Residential Housing Finance	3,869	10,009	343,529	357,407
Single Family	10,552	13,781	311,293	335,626
State Appropriated	7	4,450	—	4,457
Federal Appropriated	732	1,066	—	1,798
Agency-wide Totals	$15,464	$63,386	$687,023	$765,873

Deposits may consist of commercial paper for General Reserve, State Appropriated and Federal Appropriated and cash awaiting investment for the remainder of the funds. The commercial paper is held by the Agency's agent.

Repurchase agreements are collateralized at 102% of loan value with US treasury and agency securities, municipal securities, bank certificates of deposit or similar collateral. Generally, repurchase agreements mature in one week or less. At June 30, 2002, the collateral for the repurchase agreements in General Reserve, State Appropriated and Federal Appropriated is held by a third-party agent. The collateral for the repurchase agreements in the remainder of the funds is held by the trustee as trustee for the Agency.

Generally, investment agreements are uncollateralized, interest-bearing time deposits with financial intermediaries with variable liquidity features, which require a one-day to two-week notice for deposits and/or withdrawals, and are invested in accordance with the restrictions specified in the various bond resolutions. As of June 30, 2002, all the investment agreement providers have a Standard & Poor's long-term credit rating of "AA–" or higher and a Moody's long-term credit rating of "Aa1" or higher. Substantially all of the agreements contain "termination" clauses so that the Agency may withdraw funds early if credit ratings deteriorate below specified levels and collateral is not provided.

Investments consist of those permitted by the various bond resolutions, state law and Board policy. Investment securities are recorded at fair market value and are composed of the following at June 30, 2002 (in thousands):

Investment Securities

	Fair Market Value		
Funds	US Treasuries and Agencies	Unrealized Appreciation in Fair Market Value	Estimated Market Value
General Reserve	$102,556	$1,714	$104,270
Housing Development	8,198	32	8,230
Rental Housing	36,149	561	36,710
Residential Housing Finance	103,287	1,834	105,121
Single Family	16,216	1,485	17,701
State Appropriated	129,898	2,206	132,104
Federal Appropriated	8,731	185	8,916
Agency-wide Totals	$405,035	$8,017	$413,052

Cash, Cash Equivalents and Investment Securities (continued)

US treasury and agency securities in General Reserve, State Appropriated and Federal Appropriated are held by the Agency's agent in the name of the state of Minnesota. US treasury and agency securities in the remainder of the funds are held by the Agency's trustee in the Agency's name.

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, 2002 are as follows (in thousands):

Funds	Amount
Housing Development	$ 4,122
Rental Housing	23,124
Residential Housing Finance	3,918
Single Family	47,875
Totals	$79,039

Loans Receivable, Net

Loans receivable, net at June 30, 2002 consist of (in thousands):

Funds	Outstanding Principal	Allowance for Loan Losses	Unamortized Discounts and Fees	Loans Receivable, Net
General Reserve	$ —	$ —	$ —	$ —
Housing Development	26,984	(540)	—	26,444
Rental Housing	251,940	(8,669)	(814)	242,457
Residential Housing Finance	323,091	(4,655)	(2,233)	316,203
Single Family	1,081,523	(237)	(12,330)	1,068,956
State Appropriated	28,264	(984)	—	27,280
Federal Appropriated	—	—	—	—
Agency-wide Totals	$1,711,802	($15,085)	($ 15,377)	$1,681,340

Substantially all loans in the table above are secured by first or second mortgages on the real property. Mortgage loans in the Single Family fund are largely insured by the FHA, VA, or RD. Insurance minimizes, but does not completely eliminate, loan losses. Mortgage loans in the Single Family fund are also protected by an insurance reserve fund.

In addition to the loans in the table above, certain loans are originated at interest rates ranging from 0%-5% and repayment is deferred for up to 30 years. These loans are generally in either a second or lower mortgage position or may be unsecured. Given the nature of these loans and the risk associated with them, at the time of origination they are fully reserved resulting in a net carrying value of zero. During fiscal year ended June 30, 2002, the amount of these loans originated was $.684 million in the Housing Affordability Fund, $4.945 million in the Homeownership Endowment Fund, $2.569 million in the Multifamily Endowment Fund and $31.618 million in State Appropriated. These loans are excluded from the tables above and below as they are fully reserved.

Loans Receivable, Net (continued)

Loans receivable, net in Residential Housing Finance at June 30, 2002 consist of a variety of loans as follows (in thousands):

Description	Outstanding Amount
Home Improvement Endowment Fund:	
Home Improvement loans, generally secured by a second mortgage	$104,538
Homeownership Endowment Fund:	
Homeownership, first mortgage loans	31,382
Other homeownership loans	1,633
Multifamily Endowment Fund:	
Multifamily, generally second mortgage loans	—
Residential Housing Finance Bonds:	
Homeownership, first mortgage loans	50,917
Alternative Loan Fund, Housing Investment Fund:	
Homeownership, first mortgage loans	26,600
Multifamily, first mortgage loans	11,871
Alternative Loan Fund, Housing Affordability Fund:	
Multifamily, first mortgage loans	56,314
Multifamily, second mortgage loans	—
Homeownership, first mortgage loans	32,948
Residential Housing Finance Totals	$316,203

By statute, the Agency is limited to financing real estate located within the state of Minnesota. Collectibility depends on local economic conditions.

Bonds Payable, Net

Bonds payable, net at June 30, 2002 are as follows (in thousands):

Funds	Outstanding Principal	Unamortized Deferred Finance Costs	Bonds Payable, Net
Housing Development	$ 32,410	$ (279)	$ 32,131
Rental Housing	241,265	(5,657)	235,608
Residential Housing Finance	375,455	(1,008)	374,447
Single Family	1,304,390	(10,388)	1,294,002
Totals	$1,953,520	($ 17,332)	$1,936,188

Bonds Payable, Net (continued)

Outstanding principal of bonds payable at June 30, 2002 are as follows (in thousands):

Series	Interest Rates	Maturity Due	Original Amount	Outstanding Amount
Housing Development Bonds				
1991 Series A	6.40% to 6.95%	2002-2014	$ 44,240	$ 32,410
			44,240	32,410
Rental Housing Bonds				
1993 Series B	5.40% to 6.25%	2002-2022	17,380	6,965
1993 Series C	5.50% to 6.15%	2003-2014	1,310	1,010
1993 Series D	5.20% to 6.00%	2002-2022	4,830	4,085
1993 Series E	5.25% to 6.10%	2002-2022	25,960	17,100
1995 Series A	5.20% to 6.00%	2003-2019	1,840	1,530
1995 Series B	6.80% to 8.00%	2003-2018	3,565	75
1995 Series C-2	4.75% to 5.95%	2002-2015	38,210	23,645
1995 Series D	4.95% to 6.00%	2002-2022	234,590	141,775
1996 Series A	4.90% to 6.10%	2002-2027	2,820	2,665
1997 Series A	4.65% to 5.875%	2002-2028	4,750	4,530
1998 Series A	5.375%	2028	5,505	5,505
1998 Series B	6.60%	2019	4,180	3,840
1998 Series C	4.10% to 5.20%	2002-2029	2,865	2,770
1999 Series A	3.85% to 5.10%	2002-2024	4,275	4,080
1999 Series B	4.65% to 6.15%	2002-2025	3,160	2,990
2000 Series A	5.35% to 6.15%	2008-2030	9,290	8,750
2000 Series B	5.90%	2031	5,150	5,150
2001 Series A	4.50% to 5.35%	2012-2033	4,800	4,800
			374,480	241,265
Residential Housing Finance Bonds				
1995 Series A	4.85% to 5.85%	2002-2017	53,645	45,900
2001 Series A	1.87%	2002	38,065	38,065
2001 Series B	1.90%	2002	84,785	84,785
2001 Series C	1.90%	2002	40,230	40,230
2001 Series D	1.90%	2002	50,805	50,805
2002 Series A	4.75% to 5.30%	2012-2019	14,035	14,035
2002 Series B	3.35% to 5.65%	2004-2033	59,650	59,650
2002 Series C	3.00%	2004	24,285	24,285
2002 Series D	3.20%	2004	17,700	17,700
			383,200	375,455
Single Family Mortgage Bonds				
1992 Series A	6.35%	2002	15,405	125
1992 Series B-1	6.75%	2026	11,250	1,140
1992 Series C-1	6.75%	2023	9,630	4,605
1992 Series D-1	5.75% to 6.50%	2002-2017	21,120	7,805
1992 Series B-2	6.15%	2026	14,250	8,670
1992 Series C-2	6.15%	2023	12,185	7,505
1992 Series D-2	5.15% to 5.95%	2002-2017	26,740	12,940
1992 Series E	6.85%	2024	46,485	37,415
1992 Series F	6.75%	2012	3,895	3,135
1992 Series H	6.50%	2026	23,410	19,220
1992 Series I	5.65% to 6.25%	2002-2015	16,365	10,485

Bonds Payable, Net (continued)

Series	Interest Rates	Maturity Due	Original Amount	Outstanding Amount
Single Family Mortgage Bonds (continued)				
1993 Series B	5.80%	2025	$23,590	$23,590
1993 Series C	5.60%	2017	27,860	630
1993 Series D	6.40%	2027	17,685	10,545
1993 Series F	6.25%	2020	9,500	4,895
1994 Series A	4.55% to 5.00%	2002-2007	15,105	4,710
1994 Series B	5.65%	2022	16,990	6,770
1994 Series C	5.65%	2025	9,000	8,995
1994 Series D	4.70% to 5.00%	2002-2005	91,660	20,450
1994 Series E	4.50% to 5.90%	2002-2025	31,820	14,825
1994 Series F	5.25% to 6.30%	2002-2025	42,645	19,380
1994 Series G	6.45%	2020	19,655	10,700
1994 Series H	5.85% to 6.70%	2004-2018	18,465	8,540
1994 Series I	5.70% to 6.90%	2002-2022	14,635	4,705
1994 Series J	6.95%	2026	13,900	6,350
1994 Series K	5.40% to 6.40%	2002-2015	23,970	8,860
1994 Series L	6.70%	2020	15,680	7,630
1994 Series M	6.70%	2026	22,660	10,900
1994 Series N	6.45%	2025	18,770	7,030
1994 Series O	6.45%	2012	11,580	5,900
1994 Series P	6.45%	2021	21,150	10,790
1994 Series Q	6.70%	2017	12,600	1,775
1994 Series R	6.00% to 6.50%	2002-2007	8,120	2,365
1994 Series S	6.92%	2026	23,610	13,705
1994 Series T	5.10% to 6.125%	2002-2017	16,420	8,380
1995 Series B	6.40% to 6.55%	2017-2027	35,815	24,680
1995 Series D	6.40% to 6.45%	2015-2025	40,160	27,540
1995 Series G	7.05% to 8.05%	2002-2012	8,310	3,785
1995 Series H	6.40%	2027	19,240	11,545
1995 Series I	6.35%	2017-2018	7,450	4,470
1995 Series J	4.80% to 6.10%	2002-2019	16,065	8,825
1995 Series K	6.20%	2020	1,495	950
1995 Series L	6.25%	2027	12,950	8,275
1995 Series M	4.65% to 5.875%	2002-2017	32,025	20,615
1996 Series A	5.70% to 6.375%	2022-2028	34,480	15,010
1996 Series B	6.35%	2018-2019	7,990	7,680
1996 Series C	5.10% to 6.10%	2002-2015	12,345	9,440
1996 Series D	5.00% to 6.00%	2002-2017	23,580	11,595
1996 Series E	6.25%	2022-2023	14,495	8,510
1996 Series F	6.30%	2026-2028	18,275	10,765
1996 Series G	6.25%	2026-2028	41,810	24,100
1996 Series H	6.00%	2021	13,865	7,985
1996 Series I	6.80% to 8.00%	2002-2017	14,325	7,365
1996 Series J	5.60%	2021	915	470
1996 Series K	4.20% to 5.40%	2002-2017	9,280	6,880
1997 Series A	4.85% to 5.95%	2002-2017	22,630	18,475
1997 Series B	6.20%	2021	9,180	8,445
1997 Series C	5.30% to 6.25%	2025-2029	27,740	9,740
1997 Series D	5.80% to 5.85%	2019-2021	15,885	13,010

Bonds Payable, Net (continued)

Series	Interest Rates	Maturity Due	Original Amount	Outstanding Amount
Single Family Mortgage Bonds (continued)				
1997 Series E	5.05% to 5.90%	2024-2029	$ 23,495	$ 11,190
1997 Series F	6.83% to 7.43%	2002-2012	11,620	5,250
1997 Series G	5.10% to 6.00%	2003-2018	40,260	38,080
1997 Series H	5.10% to 6.15%	2002-2019	11,455	8,115
1997 Series I	5.50%	2017	9,730	9,535
1997 Series J	4.85%	2021	9,020	725
1997 Series K	5.75%	2026-2029	22,700	22,240
1997 Series L	6.38% to 6.95%	2002-2010	9,550	6,035
1998 Series A	4.65% to 5.20%	2008-2017	5,710	5,035
1998 Series B	4.30% to 5.50%	2002-2029	17,030	12,640
1998 Series C	4.20% to 5.25%	2002-2017	21,775	18,815
1998 Series D	4.70%	2020	7,965	3,695
1998 Series E	5.40%	2025-2030	30,500	28,330
1998 Series F-1	4.20% to 5.45%	2002-2017	10,650	9,270
1998 Series G-1	5.60%	2022	6,150	5,625
1998 Series H-1	5.65%	2031	14,885	13,615
1998 Series F-2	4.45% to 5.70%	2002-2017	11,385	10,740
1998 Series G-2	6.00%	2022	6,605	6,525
1998 Series H-2	6.05%	2031	15,965	15,765
1999 Series B	5.00% to 5.25%	2013-2020	18,865	18,040
1999 Series C	4.00% to 4.85%	2002-2024	21,960	18,595
1999 Series D	5.45%	2026-2031	23,975	22,970
1999 Series H	5.30% to 5.80%	2011-2021	16,350	15,890
1999 Series I	4.40% to 6.05%	2002-2031	34,700	31,580
1999 Series J	5.00%	2017	4,745	4,745
1999 Series K	2.85% to 5.35%	2003-2033	44,515	44,515
2000 Series A	5.25% to 5.85%	2009-2020	18,650	17,435
2000 Series B	4.90% to 5.55%	2002-2024	16,580	14,640
2000 Series C	6.10%	2030-2032	30,320	28,355
2000 Series F	Variable	2031	20,000	19,740
2000 Series G	4.25% to 5.40%	2008-2025	39,990	39,990
2000 Series H	3.60% to 5.50%	2003-2023	32,475	32,475
2000 Series I	4.60% to 5.80%	2002-2019	20,185	20,160
2000 Series J	5.40% to 5.90%	2023-2030	29,720	29,585
2001 Series A	5.35% to 5.45%	2017-2022	14,570	14,570
2001 Series B	3.90% to 5.675%	2003-2030	34,855	34,855
2001 Series E	3.50%	2003	59,405	59,405
			1,936,420	1,304,390
Totals			$2,738,340	$1,953,520

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

All bonds are subject to optional redemption after various dates at an amount equal to 100% to 102% of the unpaid principal and accrued interest as set forth in detail within the applicable series resolution.

Bonds Payable, Net (continued)

Annual debt service requirements to maturity for bonds as of June 30, 2002, excluding bonds called for early redemption prior to June 30, 2002, as listed below, are as follows (in thousands):

Fiscal Year	Housing Development Principal	Housing Development Interest	Rental Housing Principal	Rental Housing Interest
2003	$ 1,615	$ 2,214	$ 8,855	$ 13,695
2004	$ 1,720	$ 2,104	$ 9,360	$ 13,242
2005	$ 1,845	$ 1,984	$ 9,815	$ 12,755
2006	$ 1,975	$ 1,855	$ 10,315	$ 12,235
2007	$ 2,115	$ 1,717	$ 10,900	$ 11,675
2008-2012	$ 13,090	$ 6,123	$ 65,355	$ 48,235
2013-2017	$ 10,050	$ 1,061	$ 62,320	$ 29,019
2018-2022	—	—	$ 47,175	$ 11,421
2023-2027	—	—	$ 10,675	$ 3,403
2028-2032	—	—	$ 6,190	$ 778
2033-2037	—	—	$ 305	$ 16

Fiscal Year	Residential Housing Finance Principal	Residential Housing Finance Interest	Single Family Principal	Single Family Interest
2003	$226,835	$10,258	$ 63,800	$ 72,096
2004	$ 33,110	$ 7,521	$ 86,225	$ 68,592
2005	$ 3,305	$ 6,144	$ 28,205	$ 66,065
2006	$ 3,460	$ 5,991	$ 29,675	$ 64,610
2007	$ 3,635	$ 5,825	$ 25,100	$ 63,185
2008-2012	$ 22,150	$26,080	$139,200	$294,984
2013-2017	$ 28,740	$19,277	$205,865	$247,285
2018-2022	$ 14,410	$13,187	$259,055	$178,055
2023-2027	$ 17,045	$ 8,919	$302,850	$ 94,380
2028-2032	$ 17,330	$ 4,174	$157,180	$ 21,161
2033-2037	$ 5,435	$ 310	$ 7,235	$ 341

Fiscal Year	Totals Principal	Totals Interest
2003	$301,105	$ 98,263
2004	$130,415	$ 91,459
2005	$ 43,170	$ 86,948
2006	$ 45,425	$ 84,691
2007	$ 41,750	$ 82,402
2008-2012	$239,795	$375,422
2013-2017	$306,975	$296,642
2018-2022	$320,640	$202,663
2023-2027	$330,570	$106,702
2028-2032	$180,700	$ 26,113
2033-2037	$ 12,975	$ 667

The principal due for convertible option bonds (COBs) is reflected in subsequent fiscal year columns of this table based on the mandatory tender dates of those bonds. In previous fiscal years, the principal due for COBs was reflected in the debt service requirement table based upon the anticipated long-term remarketing of those bonds. This change in presentation does not alter the expectation that these bonds will be remarketed long-term at or prior to their mandatory tender date. COBs are secured by investment contracts that are structured to provide liquidity at each debt service payment date in the amounts due to bondholders. Such investment contracts are included in cash and cash equivalents on the statement of net assets.

Bonds Payable, Net (continued)

The income and assets of each of the bond funds are pledged for the payment of principal and interest on the bonds issued, and to be issued, by the respective programs. The Agency believes that as of June 30, 2002, the assets of all funds and accounts in the bond funds equaled or exceeded the requirements as established by the respective bond resolutions. The bond resolutions contain covenants that govern the respective programs financed thereby and require the Agency to maintain certain reserves and meet certain reporting requirements.

On July 12, 2001 the Board of the Agency approved a series resolution authorizing the issuance of $59,405,000 of bonds for the purpose of preserving bonding authority for future use in the Agency's homeownership lending programs. The Single Family Bonds, 2001 Series E were delivered July 25, 2001.

On July 12, 2001 the Board of the Agency approved series resolutions authorizing the remarketing of $72,465,000 of bonds for the purpose of providing funds for certain of the Agency's homeownership programs. The Single Family Bonds, 2000 Series G and H were delivered August 16, 2001.

On September 13, 2001 the Board of the Agency approved series resolutions authorizing the remarketing of $49,260,000 of bonds for the purpose of providing funds for certain of the Agency's homeownership programs. The Single Family Bonds, 1999 Series J and K were delivered October 11, 2001.

On September 13, 2001 the Board of the Agency approved series resolutions authorizing the issuance of $4,800,000 of bonds for the purpose of providing funds for the Agency's multifamily housing lending program. The Rental Housing Bonds, 2001 Series A were delivered November 29, 2001.

On November 15, 2001 the Board of the Agency approved series resolutions authorizing the issuance of $213,885,000 of bonds for the purpose of preserving bonding authority for future use in the Agency's homeownership lending programs. The Residential Housing Finance Bonds, 2001 Series A, B, C and D were delivered November 27, 2001.

On April 4, 2002 the Board of the Agency approved series resolutions authorizing the issuance of $73,685,000 of bonds for the purpose of providing funds for certain of the Agency's homeownership programs. A portion of the refunding bonding authority used for these bonds was made available as the result of optionally redeeming certain bonds issued in 1992 that were approaching their ten-year rule date. The Residential Housing Finance Bonds, 2002 Series A and B were delivered April 30, 2002.

On April 25, 2002 the Board of the Agency approved series resolutions authorizing the issuance of $41,985,000 of bonds for the purpose of preserving bonding authority for future use in the Agency's homeownership lending programs. The Residential Housing Finance Bonds, 2002 Series C and D were delivered April 30, 2002.

As of or after June 30, 2002, the Agency called for early redemption of certain bonds that are described under Subsequent Events.

Net Assets

Restricted by Covenant

In accordance with provisions of the respective bond resolutions, the Agency may transfer money from bond funds to General Reserve. The Agency has pledged to deposit in General Reserve any such funds transferred from the bond funds, except for any amounts as may be necessary to reimburse the state for money appropriated to restore a deficiency in any debt service reserve fund. The Agency further covenants that it will use the money in General Reserve only for the administration and financing of programs in accordance with the policy and purpose of the Minnesota Housing Finance Agency Act, 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

Net Assets (continued)

and investments as will be sufficient for that purpose. All interfund transfers are approved by the Board of the Agency.

In order to provide financial security for the Agency's bondholders, and to provide additional resources for housing loans to help meet the housing needs of low- and moderate-income Minnesota residents, the Agency's Board adopted the investment guidelines in the following table. These guidelines are periodically evaluated in consideration of changes in the economy and in the Agency's specific risk profile. The following table describes the balances to be maintained according to the guidelines. Amounts in this table do not include unrealized appreciation or depreciation resulting from valuing investment securities at fair market value.

Net Assets — Restricted By Covenant	Amount at June 30, 2002 (in thousands)
Housing Endowment Fund	
An amount equal to 2% of gross loans outstanding (excludes loans reserved 100%) will be invested in short term, investment grade paper at market interest rates	$ 33,670
Housing Investment Fund	
An amount equal to 5% of bonds outstanding less the Housing Endowment Fund will be invested in intermediate to long term, investment grade housing loans, as defined by the Agency, at interest rates which could be up to 3% below market.	64,006
Housing Affordability Fund	
Funds in excess of 5% of bonds may be used for administration of housing programs, contributions to bond issues, early bond redemptions, and low interest rate loans with higher than ordinary risk factors	160,753
Agency-wide Total	$258,429

The Housing Endowment Fund is maintained in the Restricted By Covenant Net Assets of General Reserve. The Housing Investment Fund and the Housing Affordability Fund are maintained in the Restricted by Covenant Net Assets of Residential Housing Finance fund.

In connection with self-insuring certain single family loans, the Agency has agreed to maintain General Reserve net assets of at least 125% of the Single Family Mortgage Bond Resolution insurance reserve. The amount aggregated $10.929 million at June 30, 2002.

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 Law

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

Defined Benefit Pension Plan

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

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

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	Excess Funded Actuarial Accrued Liability (EFAAL)	Funded Ratio	Actual Covered Payroll (Previous FY)	EFAAL as a % of Covered Payroll
07/01/01	$7,366,673	$6,573,193	$793,340	112.07%	$1,834,042	43.26%
07/01/00	$6,744,165	$6,105,703	$638,462	110.46%	$1,733,054	36.84%
07/01/99	$5,968,692	$5,464,207	$504,485	109.23%	$1,649,469	30.58%

Schedule of Employer Contributions
(dollars in thousands)

Year Ended June 30	Actuarially Required Contribution Rate	Actual Covered Payroll	Actual Member Contributions	Annual Required Contribution	Actual Employer Contribution*	Percentage Contributed
2001	7.12%	$1,834,042	$74,364	$56,220	$73,362	130.49%
2000	6.12%	$1,733,054	$70,378	$35,685	$69,322	194.26%
1999	6.48%	$1,649,469	$66,823	$40,063	$65,979	164.69%

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

The information presented is as of July 1, 2001, which is the latest actuarial information available.

The above summarizes the defined benefit pension plan. Please refer to the June 30, 2001, Minnesota State Retirement System Comprehensive Annual Financial Report for a more comprehensive description. A copy of the System's comprehensive annual financial report can be obtained by contacting Minnesota State Retirement System, 60 Empire Drive, Suite 300, St. Paul, Minnesota 55103 or calling (651) 296-2761.

Commitments

As of June 30, 2002, 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	$ —
Housing Development	—
Rental Housing	1,011
Residential Housing Finance	116,883
Single Family	18,980
State Appropriated	123,943
Federal Appropriated	21,360
Agency-wide Totals	$282,177

The Agency has lease commitments for office facilities and parking on a long-term basis. Lease expense for the fiscal year ended June 30, 2002 was $.961 million. Commitments for future minimum lease payments are (in thousands):

	Year:						
	2003	2004	2005	2006	2007	2008-2009	Total
Amount:	$996	$1,028	$1,025	$1,054	$1,080	$2,153	$7,336

The Agency has the option to terminate the lease for office facilities effective May 31, 2004.

The Agency has in place a $15 million line of credit with Wells Fargo Bank Minnesota, N.A. that expires on December 31, 2002 and may be renewed for an additional one-year period through December 31, 2003. The line of credit contains covenants that govern the Agency and requires the Agency to maintain certain asset levels and meet certain reporting requirements. At June 30, 2002 there were no outstanding advances.

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

Subsequent Events

On June 20, 2002 the Board of the Agency approved series resolutions authorizing the issuance of $65,000,000 bonds for the purpose of providing funds for certain of the Agency's homeownership programs. The Residential Housing Finance Bonds, 2002 Series E and Series F were delivered on July 31, 2002.

On July 25, 2002 the Board of the Agency approved series resolutions authorizing the issuance of $37,470,000 bonds for the purpose of providing funds for certain of the Agency's homeownership programs. The Residential Housing Finance Bonds, 2002 Series G were delivered on July 31, 2002.

On August 14, 2002 the Board of the Agency approved series resolutions authorizing the issuance of $20,000,000 bonds for the purpose of providing funds for the Agency's home improvement programs. The Residential Housing Finance Bonds, 2002 Series H are expected to be delivered on September 10, 2002.

As of June 30, 2002, the Agency called for early redemption of the following bonds:

Program Funds	Retirement Date	Original Par Value
Single Family	July 1, 2002	$40,550,000
Residential Housing Finance	July 29, 2002	$10,965,000
Rental Housing	August 26, 2002	$ 6,030,000
Single Family	August 30, 2002	$41,050,000
Rental Housing	September 16, 2002	$ 635,000

MINNESOTA HOUSING FINANCE AGENCY
Supplementary Information (Unaudited)
General Reserve and Bond Funds
Five Year Financial Summary (in thousands)
Fiscal Years 1998 – 2002

		1998	1999	2000	2001	2002
Loans Receivable, Net	Multifamily programs	$ 416,797	$ 381,387	$ 392,010	$ 353,893	$ 337,087
	Homeownership programs	1,290,777	1,233,716	1,226,528	1,228,105	1,212,436
	Home improvement programs	92,820	94,420	99,770	108,860	104,537
	Total	$1,800,394	$1,709,523	$1,718,308	$1,690,858	$1,654,060
Bonds Payable, Net	Multifamily programs	$ 405,479	$ 355,330	$ 337,013	$ 325,314	$ 267,739
	Homeownership programs	1,633,361	1,726,375	1,637,944	1,640,348	1,668,449
	Home improvement programs	—	—	—	—	—
	Total	$2,038,840	$2,081,705	$1,974,957	$1,965,662	$1,936,188
Loans purchased or originated in year	Multifamily programs	$ 24,077	$ 17,986	$ 25,419	$ 14,143	$ 18,341
	Homeownership programs	199,162	137,793	165,703	165,633	229,603
	Home improvement programs	27,593	31,808	29,965	40,027	37,281
	Total	$ 250,832	$ 187,587	$ 221,087	$ 219,803	$ 285,225
Net Assets	Total net assets	$ 488,357	$ 513,166	$ 536,748	$ 582,674	$ 612,361
	Percent of total assets	18.1%	18.6%	20.0%	21.5%	22.6%
Revenues over Expenses	Revenues over expenses for the year	$ 25,176	$ 22,286	$ 19,452	$ 42,023	$ 29,687(1)

Notes:

(1) Includes $5,618 of Administrative Reimbursement revenue in 2002 received from State Appropriated fund. This revenue item was included in the table beginning in 2002 due to GASB 34 presentation requirements.

MINNESOTA HOUSING FINANCE AGENCY
Supplementary Information (Unaudited)
Statement of Net Assets (in thousands)
General Reserve and Bond Funds
June 30, 2002 (with comparative totals for June 30, 2001)

			Bond Funds			
		General Reserve	Housing Development	Rental Housing	Residential Housing Finance	Single Family
Assets	Cash and cash equivalents	$ 27,091	$ 795	$ 38,699	$357,407	$ 335,626
	Investment securities	104,270	8,230	36,710	105,121	17,701
	Loans receivable, net	—	26,444	242,457	316,203	1,068,956
	Interest receivable on loans	—	191	1,733	1,784	5,644
	Interest receivable on investments	1,327	52	1,446	2,354	1,367
	Mortgage insurance claims receivable	—	—	—	100	397
	Real estate owned	—	—	—	38	459
	Capital assets, net	1,172	—	—	—	—
	Other assets	941	—	10	392	5
	Total assets	$134,801	$35,712	$321,055	$783,399	$1,430,155
Liabilities	Bonds payable, net	$ —	$32,131	$235,608	$374,447	$1,294,002
	Interest payable	—	933	5,752	4,915	36,747
	Deferred revenue	—	—	—	—	—
	Accounts payable and other liabilities	2,752	2	194	948	9,465
	Interfund payable (receivable)	1,220	—	21,105	(24,956)	3,218
	Funds held for others	94,273	—	—	5	—
	Total liabilities	98,245	33,066	262,659	355,359	1,343,432
	Commitments and contingencies					
Net Assets	Restricted by bond resolution	—	2,646	58,396	204,401	86,723
	Restricted by covenant	35,384	—	—	223,639	—
	Restricted by law	—	—	—	—	—
	Invested in capital assets	1,172	—	—	—	—
	Total net assets	36,556	2,646	58,396	428,040	86,723
	Total liabilities and net assets	$134,801	$35,712	$321,055	$783,399	$1,430,155

2002 Total General Reserve and Bond Funds	2001 Total General Reserve and Bond Funds
$ 759,618	$ 836,320
272,032	161,054
1,654,060	1,690,858
9,352	8,630
6,546	5,446
497	1,051
497	942
1,172	1,083
1,348	2,811
$2,705,122	$2,708,195
$1,936,188	$1,965,662
48,347	54,280
—	212
13,361	7,006
587	904
94,278	97,457
2,092,761	2,125,521
352,166	358,194
259,023	223,397
—	—
1,172	1,083
612,361	582,674
$2,705,122	$2,708,195

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, 2002 (with comparative totals for the year ended June 30, 2001)

			Bond Funds			
		General Reserve	Housing Development	Rental Housing	Residential Housing Finance	Single Family
Revenues	Interest earned on loans	$ —	$ 3,536	$18,704	$ 18,573	$76,685
	Interest earned on investments	1,398	700	3,318	12,582	21,691
	Administrative reimbursement	20,488	—	—	—	—
	Fees earned	6,881	84	1,084	160	—
	Unrealized gains (losses) on securities, net	(173)	(38)	284	984	401
	Total revenues	28,594	4,282	23,390	32,299	98,777
Expenses	Interest	—	4,046	16,771	6,878	86,643
	Loan administration and trustee fees	—	28	301	2,698	4,046
	Administrative reimbursement	—	384	2,031	2,832	8,939
	Salaries and benefits	11,985	—	—	—	—
	Other general operating	5,976	—	—	—	—
	Reduction in carrying value of certain low interest rate deferred loans	—	—	—	4,415	—
	Provision for loan losses	—	(1,051)	(730)	1,313	150
	Total expenses	17,961	3,407	18,373	18,136	99,778
	Revenues over (under) expenses	10,633	875	5,017	14,163	(1,001)
Other changes	Non-operating transfer of assets between funds	(10,366)	(13,482)	240	28,015	(4,407)
	Change in net assets	267	(12,607)	5,257	42,178	(5,408)
Net Assets	Total net assets, beginning of year	36,289	15,253	53,139	385,862	92,131
	Total net assets, end of year	$ 36,556	$ 2,646	$58,396	$428,040	$86,723

2002 Total General Reserve and Bond Funds	2001 Total General Reserve and Bond Funds
$117,498	$121,943
39,689	49,992
20,488	17,898
8,209	6,802
1,458	8,194
187,342	204,829
114,338	120,032
7,073	6,634
14,186	13,711
11,985	10,910
5,976	5,435
4,415	926
(318)	1,255
157,655	158,903
29,687	45,926
—	—
29,687	45,926
582,674	536,748
612,361	$582,674

MINNESOTA HOUSING FINANCE AGENCY
Supplementary Information (Unaudited)
Statement of Cash Flows (in thousands)
General Reserve and Bond Funds
Year ended June 30, 2002 (with comparative totals for the year ended June 30, 2001)

			Bond Funds			
		General Reserve	Housing Development	Rental Housing	Residential Housing Finance	Single Family
Cash flows from operating activities	Principal repayments on loans	$ —	$ 3,495	$ 24,357	$ 80,886	$ 207,704
	Investment in loans	—	—	(3,830)	(68,410)	(212,985)
	Interest received on loans	—	3,600	17,879	18,995	75,767
	Fees received	6,599	74	1,019	160	—
	Salaries, benefits and vendor payments	(17,362)	(93)	(295)	(1,865)	(4,037)
	Administrative reimbursement from (to) funds	20,284	(384)	(1,983)	(2,901)	(8,930)
	Interest transferred to funds held for others	(4,166)	—	—	—	—
	Deposits into funds held for others	25,752	—	—	100	—
	Disbursements made from funds held for others	(28,936)	—	—	(95)	—
	Interfund transfers and other assets	(360)	—	95	(2,044)	2,045
	Net cash provided by operating activities	1,811	6,692	37,242	24,826	59,564
Cash flows from noncapital financing activities	Proceeds from sale of bonds	—	—	4,800	329,555	181,130
	Principal repayment on bonds	—	(34,065)	(29,320)	(11,035)	(471,545)
	Interest paid on bonds and notes	—	(4,415)	(14,919)	(2,852)	(92,154)
	Financing costs paid related to bonds issued	—	—	(48)	(1,281)	(1,483)
	Interest paid/received between funds	—	—	(1,563)	1,563	—
	Principal paid/received between funds	—	—	(95)	95	—
	Premium paid on redemption of bonds	—	(230)	—	—	—
	Agency contribution to program funds	—	—	240	4,167	(4,407)
	Transfer of cash between funds	(12,669)	(13,482)	—	26,151	—
	Net cash provided (used) by noncapital financing activities	(12,669)	(52,192)	(40,905)	346,363	(388,459)
Cash flows from investing activities	Investment in real estate owned	—	—	—	(33)	(548)
	Interest received on investments	5,584	694	3,185	8,892	26,587
	Proceeds from sale of mortgage insurance claims/real estate owned	—	—	—	341	5,194
	Proceeds from maturity, sale or transfer of investment securities	42,822	3,146	14,435	83,173	2,375
	Purchase of investment securities	(71,987)	(8,200)	(36,841)	(131,856)	(5,938)
	Purchase of loans between funds	—	25,496	—	(64,547)	39,051
	Net cash provided (used) by investing activities	(23,581)	21,136	(19,221)	(104,030)	66,721
	Net increase (decrease) in cash and cash equivalents	(34,439)	(24,364)	(22,884)	267,159	(262,174)
Cash and cash equivalents	Beginning of year	61,530	25,159	61,583	90,248	597,800
	End of year	$ 27,091	$ 795	$ 38,699	$ 357,407	$ 335,626

2002 Total General Reserve and Bond Funds	2001 Total General Reserve and Bond Funds
$ 316,442	$ 235,073
(285,225)	(220,167)
116,241	122,181
7,852	6,631
(23,652)	(22,013)
6,086	3,944
(4,166)	(6,316)
25,852	32,230
(29,031)	(41,156)
(264)	(650)
130,135	109,757
515,485	356,495
(545,965)	(367,670)
(114,340)	(112,596)
(2,812)	(1,906)
—	11
—	195
(230)	—
—	—
—	—
(147,862)	(125,471)
(581)	(566)
44,942	51,302
5,535	5,237
145,951	167,311
(254,822)	(74,742)
—	4,111
(58,975)	152,653
(76,702)	136,939
836,320	699,381
$ 759,618	$ 836,320

(Continued)

MINNESOTA HOUSING FINANCE AGENCY
Supplementary Information (Unaudited)
Statement of Cash Flows (in thousands)
General Reserve and Bond Funds
Year ended June 30, 2002 (with comparative totals for the year ended June 30, 2001)

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

		Bond Funds			
	General Reserve	Housing Development	Rental Housing	Residential Housing Finance	Single Family
Revenues over (under) expenses	$10,633	$ 875	$ 5,017	$ 14,163	$ (1,001)
Adjustments to reconcile revenues over (under) expenses to net cash provided (used) by operating activities:					
Amortization of premiums (discounts) and fees on loans	—	—	(87)	720	(1,214)
Depreciation	562	—	—	—	—
Realized losses (gains) on sale of securities, net	—	(65)	38	(157)	(3)
Unrealized losses (gains) on securities, net	173	38	(284)	(984)	(401)
Provision for loan losses	—	(1,051)	(730)	1,313	150
Reduction in carrying value of certain low interest rate and/or deferred loans	—	—	—	4,415	—
Capitalized interest on loans and real estate owned	—	—	(63)	(15)	(263)
Decrease (increase) in loans receivable, excluding loans transferred between funds	—	3,495	20,527	12,476	(5,281)
Decrease (increase) in interest receivable on loans	—	(96)	(807)	(283)	464
Interest earned on investments	(1,398)	(593)	(3,467)	(12,422)	(26,765)
Arbitrage rebate liability	—	(42)	111	(3)	5,172
Increase (decrease) in deferred revenue	(137)	(10)	(65)	—	—
Interest transferred to funds held for others	(4,166)	—	—	—	—
Interest expense on bonds and notes	—	4,046	16,771	6,878	86,643
Increase (decrease) in accounts payable	493	(65)	5	833	9
Increase (decrease) in interfund payable, affecting operating activities only	(660)	160	276	(2,343)	2,054
Increase (decrease) in funds held for others	(3,184)	—	—	5	—
Other	(505)	—	—	230	—
Total adjustments	(8,822)	5,817	32,225	10,663	60,565
Net cash provided by operating activities	$ 1,811	$ 6,692	$37,242	$ 24,826	$ 59,564

	2002 Total General Reserve and Bond Funds	2001 Total General Reserve and Bond Funds
	$ 29,687	$ 45,926
	(581)	112
	562	738
	(187)	(441)
	(1,458)	(8,194)
	(318)	1,255
	4,415	926
	(341)	(394)
	31,217	14,906
	(722)	648
	(44,645)	(52,576)
	5,238	3,184
	(212)	212
	(4,166)	(6,316)
	114,338	120,032
	1,275	227
	(513)	109
	(3,179)	(8,926)
	(275)	(1,671)
	100,448	63,831
	$130,135	$109,757

Other Information

Board of Directors

Michael Finch, Ph.D., Chair
Research Program Director

Rebecca D. Yanisch, Vice Chair
Commissioner of Trade and Economic Development
State of Minnesota

The Honorable Judith H. Dutcher
State Auditor State of Minnesota

Marge Anderson
Member

Peter G. Bernier
Member

Lee Himle
Member

Marina Muñoz Lyon
Member

Legal and Financial Services

Bond Trustee
Wells Fargo Bank Minnesota, N.A.

Bond Paying Agent
Wells Fargo Bank Minnesota, N.A.

Bond Counsel
Dorsey & Whitney LLP, Minneapolis

Underwriting Team
UBS PaineWebber Inc.
U.S. Bancorp Piper Jaffray Inc.
RBC Dain Rauscher Inc.
Salomon Smith Barney

Certified Public Accountants
Deloitte & Touche LLP

Location

The Minnesota Housing Finance Agency offices are located at 400 Sibley Street, Suite 300, St. Paul, Minnesota 55101-1998.

For further information, please write, call or visit our web site.

(651) 296-7608 (general phone number)

(800) 657-3769 (toll free)

(651) 296-8139 (fax number)

www.mhfa.state.mn.us

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

The Minnesota Housing Finance Agency does not discriminate on the basis of race, color, national origin, sex, religion, age, or disability in employment or the provision of services. Information contained in this publication will be made available in an alternative format (Braille, large print or audio cassette) upon request.

APPENDIX C

SUMMARY OF CONTINUING DISCLOSURE AGREEMENT

The following statements are extracted provisions of the Continuing Disclosure Agreement between the Agency and the Trustee.

Definitions. In addition to the definitions set forth in the Resolution, which apply to any capitalized term used in this Disclosure Agreement, the following capitalized terms shall have the following meanings:

"Agency Annual Report" shall mean any Annual Report provided by the Agency pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

"Agency Disclosure Representative" shall mean such officer of the Agency or a designee, or such other person or agent of the Agency as the Commissioners shall designate in writing to the Trustee from time to time.

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

"Listed Events" shall mean any of the events listed below under the heading "Reporting of Significant Events."

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule.

"Repository" shall mean each National Repository and each State Repository.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission ("SEC") under the Securities Exchange Act of 1934 ("1934 Act").

"State Repository" shall mean any public or private repository or entity as may be designated by the State as a state information depository for the purpose of the Rule. As of the date of this Disclosure Agreement, there is no State Repository.

Provision of Annual Reports.

(a) The Agency shall, no later than nine months after the close of each fiscal year, commencing with the fiscal year ended June 30, 2002, provide to each Repository and to the Trustee, an Agency Annual Report in compliance with the requirements of Section 4 of this Disclosure Agreement.

(b) If on the date specified in subsection (a) for providing the Agency Annual Report to Repositories, the Trustee has not received a copy of the Agency Annual Report, the Trustee shall contact the Agency Disclosure Representative to determine if the Agency is in compliance with subsection (a). If the Trustee determines that the Agency has not filed its Agency Annual Report, when due, the Trustee shall file a notice with the Repositories as set forth in Exhibit A and as required by Rule 15c2-12(b)(5)(i)(D).

Content of Annual Reports The Agency's Annual Report shall contain or include by reference the following:

> Audited financial statements of the Agency for its prior fiscal year reporting on the balance sheets of the Agency's Residential Housing Finance Program Fund and the General Reserve Account of the Housing Development Fund and related statements of revenues and expenses and changes in restricted fund balances and of cash flows. If, on the date the Agency is required to provide the Agency Annual Report, the Agency has not received a report of independent auditors, the Agency shall provide the Repositories and the Trustee with its unaudited financial statements prepared in substantially the format of its audited financial statements.

Any or all of the items listed above may be provided by reference to other documents, including Official Statements of debt issues of the Agency or related public entities, which have been submitted to each of the Repositories. If the document provided by reference is a final Official Statement, it must be available from the Municipal Securities Rulemaking Board. The Agency shall clearly identify each such other document so incorporated by reference in the Agency's Annual Report.

The accounting principles used by the Agency in the preparation of its financial statements are accounting principles generally accepted in the United States of America, referred to as "GAAP."

Reporting of Significant Events.

(a) This section shall govern the giving of notices of the occurrence of any of the following events with respect to the Series Bonds:

1. Principal and interest payment delinquencies;
2. Non-payment related defaults;
3. Unscheduled draws on debt service reserves reflecting financial difficulties;
4. Unscheduled draws on credit enhancements reflecting financial difficulties;
5. Substitution of credit or liquidity providers, or their failure to perform;
6. Adverse tax opinions or events affecting the tax-exempt status of the security;
7. Modifications to rights of security holders;
8. Bond calls;
9. Defeasances;
10. Release, substitution, or sale of property securing repayment of the securities; and
11. Rating changes.

(b) The Trustee shall, within one (1) Business Day of obtaining actual knowledge of the occurrence of any of the Listed Events, other than items 8 and 9, inform the Agency Disclosure Representative of the occurrence of the event.

(c) Whenever the Agency obtains actual knowledge of the occurrence of a Listed Event, the Agency shall, as soon as practicable, take such steps as are necessary to determine if such event would constitute material information within the meaning of cases decided under the 1934 Act.

(d) If the Agency has determined that the occurrence of a Listed Event is material within the meaning of cases decided under the 1934 Act, the Agency Disclosure Representative shall promptly notify the Trustee in writing. Such notice shall inform the Trustee that the occurrence is being reported by the Agency or instruct the Trustee to report the occurrence pursuant to subsection (f).

(e) If in response to information received from the Trustee under subsection (b), the Agency determines that the Listed Event would not be material within the meaning of cases decided under the 1934 Act, the Agency Disclosure Representative shall so notify the Trustee in writing and instruct the Trustee not to report the occurrence pursuant to subsection (f).

(f) If the Trustee has been instructed by the Agency Disclosure Representative to report the occurrence of a Listed Event, the Trustee shall file a notice of such occurrence with each National Repository or the Municipal Securities Rulemaking Board and each State Repository.

(g) Notice of Listed Events described in subsections (a) (8) and (9) need not be given under this section any earlier than notice of the underlying event is given to Holders of affected Bonds pursuant to the Resolution. Nothing in this Disclosure Agreement supercedes the Trustee duties under the Resolution with respect to notices of redemption or notices in connection with defeasance of Bonds.

Management Discussion of Items Disclosed in Annual Reports or as Significant Events. If an item required to be disclosed in the Agency's Annual Report, or as a Listed Event, would be misleading without discussion, the Agency shall additionally provide a statement clarifying the disclosure in order that the statement made will not be misleading in the context in which it is made.

Termination of Reporting Obligation The Agency's obligations under this Disclosure Agreement shall terminate upon the defeasance, prior redemption or payment in full of all of the Series Bonds in accordance with the Resolution.

Substitution of Obligated Person The Agency shall not transfer its obligations under the Resolution unless the transferee agrees to assume all the obligations of the Agency under this Disclosure Agreement.

Amendment; Waiver Notwithstanding any other provision of this Disclosure Agreement, the Agency and the Trustee may amend this Disclosure Agreement (and the Trustee shall agree to any amendment so requested by the Agency), and any provision of this Disclosure Agreement may be waived, if such amendment or waiver is supported by an opinion of counsel experienced in federal securities laws, acceptable to each of the Agency and the Trustee, to the effect that such amendment or waiver would not, in and of itself, cause the undertakings herein to violate the Rule taking into account any subsequent change in or official interpretation of the Rule.

Additional Information Nothing in this Disclosure Agreement shall be deemed to prevent the Agency from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Agency Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Agency chooses to include any information in any Agency Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the Agency shall have no obligation under this Disclosure Agreement to update such information or include it in any future Agency Annual Report or notice of occurrence of a Listed Event.

Default.

(a) In the event of a failure of the Agency to provide to the Repositories the Agency Annual Report as undertaken by the Agency in this Disclosure Agreement, the Beneficial Owner of any Bonds may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the Agency to comply with its obligations to provide Annual Reports under this Disclosure Agreement.

(b) Notwithstanding the foregoing, no Beneficial Owner shall have the right to challenge the content or adequacy of the information provided pursuant to this Disclosure Agreement by mandamus, specific performance or other equitable proceedings unless Beneficial Owners of Bonds representing at least 25% aggregate principal amount of outstanding Bonds shall join in such proceedings.

(c) A default under this Disclosure Agreement shall not be deemed an Event of Default under the Resolution, and the sole remedy under this Disclosure Agreement in the event of any failure of the Agency to comply with this Disclosure Agreement shall be an action to compel performance.

APPENDIX D

SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION

The following statements are brief summaries of certain provisions of the Bond Resolution. Defined terms used in the following summaries are identical in all material respects with those used in the Bond Resolution.

Certain Defined Terms

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

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

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

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

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

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

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

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

(a) Direct obligations of, or obligations the timely payment of principal and interest on which are insured or guaranteed by, the United States of America;

(b) Obligations (i) which are backed by the full faith and credit of any state of the United States of America, (ii) of any agency of the United States of America, or (iii) of any public corporation sponsored by the United States of America, provided that, at the time of purchase, such obligations shall not adversely affect the Rating of the Bonds;

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

(d) Repurchase agreements and reverse repurchase agreements with banks which are members of the Federal Deposit Insurance Corporation, or with government bond dealers reporting to and trading with the Federal Reserve Bank of New York, which agreements are secured by obligations described in the preceding clauses (a) and (b) of this definition;

(e) Shares of (i) an investment company registered under the federal investment company act of 1940, whose shares are registered under the federal securities act of 1933, whose only investments are in securities described in subparagraphs (a) or (b) above, or (ii) a common trust fund established by a national banking association or a bank or trust company organized under the laws of any state with combined capital and surplus of at least $75,000,000, under the supervision and regulation of the Comptroller of the Currency pursuant to 12 C.F.R. 9, or any successor regulation, whose only investments are in securities described in subparagraphs (a) or (b) above;

(f) Any investment contract with any provider as long as such investment contract does not adversely affect the Rating of the Bonds; and

(g) Any other investment that will not adversely affect the Rating of the Bonds.

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

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

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

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

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

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

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

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

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

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

Series Accounts

Unless otherwise provided in a Series Resolution, the Trustee shall establish within each Fund under the Bond Resolution (other than the Endowment Fund and the Alternative Loan Fund), a separate Series Account for each Series of Bonds. The proceeds of a particular Series of Bonds, other amounts made available by the Agency in the Series Resolution or otherwise relating to a particular Series of Bonds and the Revenues relating to a particular

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

Cost of Issuance Accounts

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

Acquisition Accounts

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

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

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

(1) an Agency Certificate setting forth the amount to be paid, the person or 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 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; and

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

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

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

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

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

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

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

Bond Fund Interest Account and Bond Fund Principal Account

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

If the withdrawals required with respect to the same and every prior date shall have been made, the Trustee shall withdraw from the Bond Fund Principal Account, on or immediately prior to each Principal Installment Date, an amount equal to the principal amount of the Outstanding Bonds, if any, maturing on or before said Principal

Installment Date and shall cause the same to be applied to the payment of the principal amount of said Bonds when due and is authorized to transmit the same to any Paying Agents who shall apply the same to such payment.

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

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

Bond Redemption Fund

Subject to the provisions of the respective Series of Bonds and to the provisions of the respective Series Resolutions authorizing the issuance thereof, all amounts deposited in the Bond Redemption Fund shall be applied to the purchase or redemption of Bonds, including payment of any redemption premium, on the applicable Redemption Date; provided, however, that in the event the Agency has issued refunding obligations for the purpose of redeeming Bonds of a Series 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 forty-five (45) calendar days prior to such redemption to the Bond Redemption Fund in the Bond Fund from the Debt Service Reserve Fund or Insurance Reserve Fund the amount stated in such Request, which amount shall be no greater than the amount by which the Debt Service Reserve Requirement or Insurance Reserve Requirement will decrease due to the purchase or redemption of Bonds. Subject to the provisions of the Bond Resolution or of any Series Resolution authorizing the issuance of Bonds, requiring the application thereof to the purchase or redemption of any particular Bonds, the Trustee shall apply any amounts deposited in the Bond Redemption Fund to the purchase or redemption of Bonds at the times and in the manner provided in the Bond Resolution. Amounts on deposit in the Bond Redemption Fund for the payment, purchase or redemption of any particular Bonds in accordance with the provisions of any Series Resolution authorizing the issuance of Refunding Bonds shall be segregated and shall be identified as such on the records of the Trustee.

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

Endowment Fund

The Trustee shall establish and maintain three subfunds within the Endowment Fund entitled the "Home Improvement Endowment Fund," the "Homeownership Endowment Fund" and the "Multifamily Housing Endowment Fund." Each such subfund may be used to make or purchase loans, make grants, and provide other subsidies and assistance, upon such terms as the Agency may determine, with respect to the type of housing and housing improvements appropriate to each subfund. Upon receipt of an Agency Certificate, the Trustee shall (i) deposit in a designated subfund of the Endowment Fund any funds, securities, Cash Equivalents, loans or other property provided by the Agency and not otherwise pledged under the Bond Resolution or (ii) withdraw from a designated subfund and deposit in another designated subfund of the Endowment Fund any funds, securities, Cash Equivalents, loans or other property specified in such Agency Certificate, or (iii) withdraw from a designated subfund or subfunds of the Endowment Fund for release to the Agency free and clear of the lien of the Bond Resolution, for deposit in the Agency's General Reserve Account or deposit in the Alternative Loan Fund, any funds, securities, Cash Equivalents, loans or other property specified in such Agency Certificate; subject, however, to any covenants or agreements made by the Agency in a Series Resolution.

Any moneys held in a subfund of the Endowment Fund may be invested or reinvested in such securities, loans or other investment as may be directed by an Authorized Officer, which may include Investment Obligations, Program Obligations or Other Obligations but is not restricted thereto. Any interest or income earned with respect to any said securities, loans or other property shall likewise be retained in the appropriate subfund of the Endowment Fund.

Subject to programmatic uses permitted by the Bond Resolution, funds, securities, Cash Equivalents, loans and other property held from time to time in the Endowment Fund are available for the payment of the principal of, Redemption Price and interest on Bonds when due. Amounts on deposit in the Endowment Fund shall be used to make up deficiencies in the Bond Fund Interest Account, Bond Fund Principal Account, Bond Redemption Fund, Debt Service Reserve Fund and Insurance Reserve Fund as specified in the Bond Resolution. The Agency has not covenanted in the Bond Resolution to maintain any minimum balance in the Endowment Fund and there is no assurance any funds will be available therein in the event of a deficiency in any other Funds or Accounts. Notwithstanding the foregoing, the Agency will agree in the Series Resolution for the Series Bonds to maintain in the Endowment Fund a sum of moneys, Investment Obligations and Cash Equivalents and the unpaid principal amount of Program Obligations in an amount not less than the principal amount of the then Outstanding Series Bonds.

Debt Service Reserve Fund

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

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

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

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

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

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

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

Insurance Reserve Fund

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

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

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

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

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

If at any time the amount in the Insurance Reserve Fund is less than the Insurance Reserve Requirement, and is not restored from available Revenues in accordance with the Bond Resolution, or available funds in the General Reserve Account or Alternative Loan Fund supplied by the Agency upon notice of the deficiency from the Trustee, the deficiency shall be supplied by the Trustee by the transfer of funds available from the Endowment Fund.

Alternative Loan Fund

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

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

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

Investment of Moneys Held by the Trustee

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

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

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

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

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

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

Cash Flow Certificates

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

Defeasance of Bonds

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

Events of Default

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

Acceleration; Annulment of Acceleration

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

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

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

Additional Remedies and Enforcement of Remedies

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

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

Amendments

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

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

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

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

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

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

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

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

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

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

APPENDIX E

MORTGAGE INSURANCE PROGRAMS AND STATE LAWS AFFECTING FORECLOSURES

Federal Housing Administration Single-Family Mortgage Insurance Programs

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

The regulations governing all of the FHA programs under which the mortgage loans may be insured provide that insurance benefits are payable either upon foreclosure (or other acquisition of possession) and conveyance of the Home to the Department of Housing and Urban Development ("HUD") or upon assignment of the defaulted mortgage loan to HUD. With respect to the assignment of mortgaged premises containing less than five dwelling units to HUD, mortgagees must first make a determination as to whether or not the default is caused by a circumstance or set of circumstances beyond the mortgagor's control, which temporarily renders the family financially unable to cure the delinquency within a reasonable time or make full mortgage payments. If a determination is made that the default is caused by such circumstances, HUD must be requested to accept assignment and must have rejected the request for the mortgagee to initiate foreclosure proceedings. Assignments of mortgaged premises containing five or more dwelling units is at the option of the mortgage lender, but HUD may decrease the insurance payment if the mortgage lender chooses to assign such a mortgage by an amount equal to 1% of the unpaid principal amount of the mortgage loan.

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

HUD debentures issued in satisfaction of FHA insurance claims bear interest at the HUD debenture interest rate in effect under HUD regulations on the date of the mortgage insurance commitment or of the initial insurance endorsement of the mortgage, whichever rate is higher. The HUD debenture interest rates applicable to the FHA insured mortgages which the Agency has acquired or committed to acquire are in all 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. When entitlement to insurance benefits results from assignment of the Mortgage Loan to HUD, the insurance payment is computed as of the date of the assignment and includes full compensation for mortgage interest accrued and unpaid to the assignment date. The regulations under all insurance programs described above provide that the insurance payment itself shall bear interest from the date of default, or, where applicable, the date of assignment, 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 or subject to a mortgage to be assigned 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, f the property has been damaged during the mortgage holder's possession by events other than fire, flood, earthquake or tornado notwithstanding reasonable action by the mortgage holder, HUD may require the mortgage holder to repair the property prior to conveyance to HUD as a condition to payment of an insurance claim.

Veterans Administration Guaranty Program

The Serviceman's Readjustment Act of 1944, as amended, permits a veteran (or, in certain instances, his or her spouse) to obtain a mortgage loan guaranteed by the Veterans Administration (the "VA") covering mortgage financing of the purchase of a one-to-four family dwelling unit at interest rates agreed upon by the purchaser and the mortgagee, as the VA may elect. The program has no mortgage loan limits (other than that the amount may not exceed the property's reasonable value as determined by the VA), requires no down payment from the purchaser and permits the guaranty of mortgage loans with terms of up to 30 years. The guaranty provisions for mortgage loans are as follows: (a) for home and condominium loans of $45,000 or less, 50% of the loan is guaranteed (for loans with an original principal balance of $45,000 and not more than $56,250, the guaranty will not exceed $22,500); (b) for home and condominium loans of more than $56,250 but less than or equal to $144,000, 40% of the loan is guaranteed subject to a maximum guaranty of $36,000; (c) for home and condominium loans of more than $144,000, 25% of the principal amount of the loan is guaranteed subject to a maximum guarantee of $50,750; and (d) for loans for manufactured homes, 40% of the loan is guaranteed (with a maximum guaranty of $20,000). The liability on the guaranty is reduced or increased pro rata with any reduction or increase in the amount of the indebtedness, but in no event will the amount payable on the guaranty exceed the amount of the original guaranty. Notwithstanding the dollar and percentage limitations of the guaranty, a mortgage holder will ordinarily suffer a monetary loss only where the difference between the unsatisfied indebtedness and the proceeds of a foreclosure sale of a mortgaged premises is greater than the original guaranty as adjusted. The VA may, at its option and without regard to the guaranty, make full payment to a mortgage holder of unsatisfied indebtedness on a mortgage upon its assignment to the VA.

Rural Development (RD) Insured Program

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

Private Mortgage Insurance Programs

In accordance with the Bond Resolution, all Qualified Mortgages insured by a private mortgage insurance company shall be in any amount not exceeding the Market Value of the Home, provided that the Agency is issued a mortgage insurance policy under which the minimum insured percentage of any claim filed is at least equal to that percentage of the Market Value or sale price of the Home, whichever is less, by which the original principal amount of the mortgage exceeds 75% of such Market Value. Each private mortgage insurer insuring such Qualified Mortgages must be qualified to insure mortgages purchased by FNMA or the Federal Home Loan Mortgage Corporation ("FHLMC"). Both FNMA and FHLMC require approval of private mortgage insurance companies before mortgages insured by those companies are eligible for purchase by them.

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

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

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

It is the present administrative policy of the Agency to require that any private mortgage insurance policy with respect to a Qualified Mortgage to be purchased with the proceeds of the Series Bonds contain provisions substantially as follows: (a) the private mortgage insurer must pay a claim, including unpaid principal, accrued interest and certain expenses, within sixty days of presentation of the claim by the mortgage lender; (b) for a mortgage lender to present a claim, the mortgage lender must have acquired, and tendered to the insurer, title to the property, free and clear of all liens and encumbrances, including any right of redemption by the mortgagor; (c) when a claim is presented, the insurer will have the option of paying the claim in full, taking title to the property and arranging for its sale, or of paying the insured percentage of the claim (either 20 or 25%, depending on the coverage purchased by the mortgage lender) and allowing the insured lender to retain title to the property.

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

Insurance Reserve Fund

For a description of the Insurance Reserve Fund, see "Summary of Certain Provisions of the Bond Resolution" in Appendix D.

State Laws Affecting Foreclosures

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

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

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

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

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

APPENDIX F

BOOK-ENTRY-ONLY SYSTEM

Book-Entry-Only System

The Depository Trust Company, New York, New York ("DTC"), is to act as securities depository for the Remarketed Bonds. The ownership of one fully registered Remarketed Bond for each maturity in the aggregate principal amount of such maturity, will be registered in the name of Cede & Co., DTC's partnership nominee. *So long as Cede & Co. is the Registered Owner of the Remarketed Bonds, as nominee of DTC, references herein to the Bondholders, Holders or Registered Owners of such Remarketed Bonds shall mean Cede & Co. and shall not mean the Beneficial Owners of such Remarketed Bonds.*

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation and Emerging Markets Clearing Corporation (NSCC, GSCC, MBSCC and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of beneficial ownership interests in the Remarketed Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Remarketed Bonds on DTC's records. The ownership interest of each actual purchaser of each Remarketed 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 Remarketed 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 Remarketed Bonds, except in the event that use of the Book-Entry System for the Remarketed Bonds is discontinued as described below.

To facilitate subsequent transfers, all Remarketed 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 Remarketed 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 Remarketed Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Remarketed 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 Remarketed 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 Remarketed Bonds of a maturity are being redeemed, DTC's, practice is to determine by lot the amount of the interest of each Direct Participant in such Remarketed Bonds of such maturity to be redeemed.

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

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

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

The above information contained in this section "Book-Entry-Only System" is based solely on information provided by DTC. No representation is made by the Agency or the Remarketing Agents 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 Remarketing Agents 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 Remarketed Bonds (i) payments of principal of or interest and premium, if any, on the Remarketed Bonds, (ii) certificates representing an ownership interest or other confirmation of beneficial ownership interest in Remarketed Bonds, or (iii) redemption or other notices sent to DTC or Cede & Co., its nominee, as the Registered Owner of the Remarketed 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 Remarketing Agents 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 Remarketed 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 Remarketed 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 Remarketed Bonds; (5) the selection of the Beneficial Owners to receive payment in the event of any partial redemption of the Remarketed Bonds; or (6) any consent given or other action taken by DTC as a Bondholder.

Discontinuation of Book-Entry-Only System

DTC may discontinue its book-entry services with respect to all the Remarketed Bonds at any time by giving notice to the Agency and discharging its responsibilities with respect thereto under applicable law. Under such circumstances, the Remarketed Bonds are required to be delivered as described in the Series Resolution. The Beneficial Owner, upon registration of such Remarketed 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 the Remarketed Bonds. In such event, the Remarketed Bonds are to be delivered as described in the Series Resolution.

APPENDIX G

OPINIONS OF BOND COUNSEL

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[To be dated the date of remarketing of the Remarketed Series A-1 Bonds]

Minnesota Housing Finance Agency
St. Paul, Minnesota 55101

Re: Minnesota Housing Finance Agency
Residential Housing Finance Bonds, 2002 Series A-1

Ladies and Gentlemen:

We have acted as bond counsel to the Minnesota Housing Finance Agency (the "Agency") in connection with the remarketing by the Agency of its Residential Housing Finance Bonds, 2002 Series A-1, in the aggregate principal amount of $6,860,000 (the "Remarketed Series A-1 Bonds"), which are remarketed only as fully registered bonds of single maturities in denominations of $5,000 or any integral multiple thereof.

The Remarketed Series A-1 Bonds are dated, mature on the dates, bear interest at the rates and are payable as provided in the Supplemented Series Resolution referenced below. The Remarketed Series A-1 Bonds are subject to optional and special redemption prior to maturity, including special redemption at par, and to mandatory tender for purchase at par, as provided in the Supplemented Series Resolution.

As bond counsel, we have examined certificates as to facts, estimates and circumstances and certified copies of resolutions and proceedings of the Agency and other documents we considered necessary as the basis for this opinion, including the Agency's Amended and Restated Bond Resolution adopted August 24, 1995, as amended and supplemented, and the Series Resolution adopted April 4, 2002, as supplemented by a supplemented series resolution adopted October 24, 2002 (as so supplemented, the "Supplemented 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 Remarketed Series A-1 Bonds in order that interest on the Remarketed Series A-1 Bonds may be excluded from gross income for federal income tax purposes. The Agency has covenanted in the Bond Resolution, Series Resolution and the Supplemented Series Resolution to comply with the requirements of applicable federal tax law and for such purpose to adopt and maintain appropriate procedures. In rendering this opinion, we have assumed compliance by the Agency with and enforcement by the Agency of the provisions of the Bond and Supplemented 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 and the Supplemented Series Resolutions have been duly and validly adopted by the Agency and are valid and binding upon it in accordance with their terms, and create the valid pledge and security interest they purport to create with respect to the Program Obligations, Investment Obligations, Revenues, moneys and other assets held and to be set aside under the Bond and the Supplemented Series Resolutions; (3) the Remarketed Series A-1 Bonds are duly and lawfully authorized to be issued and are valid and binding general obligations of the Agency in accordance with their terms, entitled to the benefits granted by and secured by the covenants contained in the Bond and Supplemented 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 Remarketed Series A-1 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 Remarketed Series A-1 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 Remarketed Series A-1 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 Remarketed Series A-1 Bonds will not be treated as a preference item in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations, and in calculating the Minnesota alternative minimum tax imposed on individuals, trusts and estates, but will be included in the calculation of adjusted current earnings for purposes of calculating federal and State of Minnesota alternative minimum taxes imposed on corporations. We express no opinion regarding other federal or state tax consequences arising from ownership of the Remarketed Series A-1 Bonds. All owners of Remarketed Series A-1 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 the Remarketed Series A-1 Bonds.

The opinions expressed above are qualified only to the extent that the enforceability of the Remarketed Series A-1 Bonds and the Bond and Supplemented Series Resolution may be limited by general principles of equity and by bankruptcy, insolvency, reorganization, moratorium or other laws relating to or affecting enforcement of creditor's rights heretofore or hereafter enacted.

Dated: ______________, 2002.

Respectfully yours,

DORSEY & WHITNEY LLP

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[To be dated the date of remarketing of the Remarketed Series B-1 Bonds]

Minnesota Housing Finance Agency
St. Paul, Minnesota 55101

Re: Minnesota Housing Finance Agency
Residential Housing Finance Bonds, 2002 Series B-1

Ladies and Gentlemen:

We have acted as bond counsel to the Minnesota Housing Finance Agency (the "Agency") in connection with the remarketing by the Agency of its Residential Housing Finance Bonds, 2002 Series B-1, in the aggregate principal amount of $25,760,000 (the "Remarketed Series B-1 Bonds"), which are remarketed only as fully registered bonds of single maturities in denominations of $5,000 or any integral multiple thereof.

The Remarketed Series B-1 Bonds are dated, mature on the dates, bear interest at the rates and are payable as provided in the Supplemented Series Resolution referenced below. The Remarketed Series B-1 Bonds are subject to optional and special redemption prior to maturity, including special redemption at par, and to mandatory tender for purchase at par, as provided in the Supplemented Series Resolution.

As bond counsel, we have examined certificates as to facts, estimates and circumstances and certified copies of resolutions and proceedings of the Agency and other documents we considered necessary as the basis for this opinion, including the Agency's Amended and Restated Bond Resolution adopted August 24, 1995, as amended and supplemented, and the Series Resolution adopted April 4, 2002, as supplemented by a supplemented series resolution adopted October 24, 2002 (as so supplemented, the "Supplemented 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 Remarketed Series B-1 Bonds in order that interest on the Remarketed Series B-1 Bonds may be excluded from gross income for federal income tax purposes. The Agency has covenanted in the Bond Resolution, the Series Resolution and Supplemented Series Resolution to comply with the requirements of applicable federal tax law and for such purpose to adopt and maintain appropriate procedures. In rendering this opinion, we have assumed compliance by the Agency with and enforcement by the Agency of the provisions of the Bond and Supplemented 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 and Supplemented Series Resolution have been duly and validly adopted by the Agency and are valid and binding upon it in accordance with their terms, and create the valid pledge and security interest they purport to create with respect to the Program Obligations, Investment Obligations, Revenues, moneys and other assets held and to be set aside under the Bond and Supplemented Series Resolution; (3) the Remarketed Series B-1 Bonds are duly and lawfully authorized to be issued and are valid and binding general obligations of the Agency in accordance with their terms, entitled to the benefits granted by and secured by the covenants contained in the Bond and Supplemented 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 Remarketed Series B-1 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 Remarketed Series B-1 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 Remarketed Series B-1 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 Remarketed Series B-1 Bonds will be treated as a preference item in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations, and in calculating the Minnesota alternative minimum tax imposed on individuals, trusts and estates. We express no opinion regarding other federal or state tax consequences arising from the ownership or disposition of the Remarketed Series B-1 Bonds. All owners of Remarketed Series B-1 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 Remarketed Series B-1 Bonds.

The opinions expressed above are qualified only to the extent that the enforceability of the Remarketed Series B-1 Bonds and the Bond and Supplemented Series Resolution may be limited by general principles of equity and by bankruptcy, insolvency, reorganization, moratorium or other laws relating to or affecting enforcement of creditor's rights heretofore or hereafter enacted.

Dated: ______________, 2002.

Respectfully yours,