NOTICE

$80,000,000
Minnesota Housing Finance Agency
Rental Housing Bonds, 2004 Series C (Non-AMT)

Official Statement, dated October 29, 2004

The Official Statement, dated October 29, 2004, has been posted on this website as a matter of convenience. The posted version of the Official Statement has been formatted in Adobe Portable Document Format (Adobe Acrobat 5.0). Although this format should replicate the Official Statement distributed on behalf of the Agency in connection with the issuance of the bonds, the appearance may vary for a number of reasons, including electronic communication difficulties or particular user software or hardware. Using software other than Adobe Acrobat 5.0 may cause the Official Statement that you view or print to differ from the Official Statement.

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

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

NEW ISSUE

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

$80,000,000
Minnesota Housing Finance Agency
Rental Housing Bonds, 2004 Series C (Non-AMT)

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

Tax Exemption	Interest on the above-captioned bonds (the "Series C Bonds") is not includable in gross income for federal income tax purposes or taxable net income of individuals, trusts and estates for Minnesota income tax purposes. See pages 19-21 herein for additional information, including information on the application of federal and state alternative minimum tax provisions to the Series C Bonds.
Redemption	The Series C Bonds are subject to optional redemption and to special redemption at par as set forth on pages 7-8 herein.
Security	On a parity with outstanding Bonds heretofore or hereafter issued under the Bond Resolution, by a pledge of Bond proceeds, Mortgage Loans, Investments, Revenues and other assets held under the Bond Resolution. The Series C Bonds are general obligations of the Agency, payable out of any of its generally available moneys, assets or revenues. THE AGENCY HAS NO TAXING POWER. THE STATE OF MINNESOTA IS NOT LIABLE FOR THE PAYMENT OF THE SERIES C BONDS AND THE SERIES C BONDS ARE NOT A DEBT OF THE STATE. (See "Security for the Bonds" on pages 8-10 herein.)
Interest Payment Dates	February 1 and August 1, commencing February 1, 2005.
Denominations	$5,000 or any integral multiple thereof.
Closing/Settlement	November 17, 2004 through the facilities of DTC in New York, New York.
Bond Counsel	Dorsey & Whitney LLP, Minneapolis, Minnesota.
Underwriters' Counsel	Kutak Rock LLP, Atlanta, Georgia.
Trustee	Wells Fargo Bank, National Association.
Book-Entry-Only System	The Depository Trust Company. See Appendix E herein.

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

UBS Financial Services Inc.

Piper Jaffray & Co. RBC Dain Rauscher Inc.

The date of this Official Statement is October 29, 2004.

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND PRICES

$39,220,000 Serial Bonds

Maturity Date	Principal Amount	Interest Rate	CUSIP
August 1, 2005	$2,400,000	1.75%	60415N SZ 6
February 1, 2006	2,430,000	1.95	60415N TA 0
August 1, 2006	2,460,000	2.05	60415N TB 8
February 1, 2007	2,495,000	2.30	60415N TC 6
August 1, 2007	2,530,000	2.40	60415N TD 4
February 1, 2008	2,570,000	2.55	60415N TE 2
August 1, 2008	2,610,000	2.60	60415N TF 9
February 1, 2009	2,655,000	2.80	60415N TG 7
August 1, 2009	2,700,000	2.90	60415N TH 5
February 1, 2010	2,750,000	3.10	60415N TJ 1
August 1, 2010	2,805,000	3.20	60415N TK 8
February 1, 2011	2,860,000	3.35	60415N TL 6
August 1, 2011	2,855,000	3.45	60415N TM 4
February 1, 2012	2,650,000	3.50	60415N TN 2
August 1, 2012	2,450,000	3.55	60415N TP 7

$4,890,000 3.70% Term Bond Due August 1, 2013 (CUSIP 60415N TQ 5* **)**

$4,800,000 3.75% Term Bond Due August 1, 2014 (CUSIP 60415N TR 3* **)**

$4,955,000 3.85% Term Bond Due August 1, 2015 (CUSIP 60415N TS 1* **)**

$26,135,000 4.40% Term Bond Due February 1, 2022 (CUSIP 60415N TT 9* **)**

Price of all Bonds—100%

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

No dealer, broker, salesman or other person has been authorized by the Minnesota Housing Finance Agency or the Underwriters to give any information or representations, other than those contained in the Official Statement and, if given or made, such other information or representations must not be relied upon as having been an offer to buy nor shall there be any sale of the Series C Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information 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 Underwriters have reviewed the information in this Official Statement in accordance with, and as a part of, their respective responsibilities under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of the information.

In connection with this offering, the Underwriters may over-allot or effect transactions which stabilize or maintain the market price of the Series C 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
$80,000,000
MINNESOTA HOUSING FINANCE AGENCY
Rental Housing Bonds, 2004 Series C

The purpose of this Official Statement (which includes the cover page, inside front cover and Appendices) is to set forth information concerning the Minnesota Housing Finance Agency (the "Agency"), created by Minnesota Statutes, Chapter 462A, as amended (the "Act"), and its Rental Housing Bonds, 2004 Series C (the "Series C Bonds"), in connection with the sale of the Series C Bonds by the Agency. The Series C Bonds are being issued pursuant to the Act, a resolution of the Agency adopted on August 25, 1988, as amended (the "Bond Resolution"), and a series resolution of the Agency adopted October 28, 2004 (the "Series Resolution"); the Bond Resolution and the Series Resolution are herein sometimes called the "Resolutions." The Series C Bonds and any Rental Housing Bonds heretofore and hereafter issued pursuant to the Bond Resolution will be equally and ratably secured under the Bond Resolution and are herein sometimes called the "Bonds." Bonds outstanding as of August 31, 2004 aggregated $215,385,000 in principal amount.

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 brief 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 Series C Bonds are qualified in their entirety by reference to the definitive forms thereof and the information with respect thereto contained in the Resolutions.

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 making long-term mortgage loans to sponsors of residential housing for occupancy by persons and families of low and moderate income 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 and home energy loans and to finance multifamily housing 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 "Net Assets Restricted by Covenant" footnote included in the notes to the financial statements of the Agency included in Appendix B.

The proceeds of Bonds issued pursuant to the Bond Resolution are used to finance a portion of the activities undertaken pursuant to the Rental Housing Program (the "Program"). The Program is administered by the multifamily division of the Agency. The purpose of the Program is to increase the supply of and to maintain and improve the rental housing stock in Minnesota that is affordable to low and moderate income households. The Program has also provided financing for nonprofit group homes for the developmentally disabled. Through the use of bond financing and other funding sources, this Program is intended generally to provide long-term, fixed rate, first lien mortgage loans ("Mortgage Loans"), and under certain circumstances subordinate mortgage loans ("Subordinate Mortgage Loans"), to provide for the construction, acquisition, rehabilitation or refinancing of multifamily rental housing and group home developments (the "Developments"). The Bond Resolution authorizes, upon conditions set forth therein the issuance of additional series of Bonds on a parity with the Outstanding Bonds, including the Series C Bonds.

In recognition of certain risks inherent in mortgage lending, the Agency has adopted policies and review procedures for detailed evaluation of the Developments which it finances prior to making Mortgage Loan commitments. To assure completion of rehabilitation, construction and proper maintenance, the Agency has established reserve and escrow requirements and procedures for regulating and monitoring operations with respect to such Developments. The procedures presently employed by the Agency to reduce such risks are described more fully herein. (See "RENTAL HOUSING PROGRAM.")

The Agency will continue its Program through the issuance of the Series C Bonds in the principal amount set forth on the cover of this Official Statement. The Series Resolution authorizes the issuance of the Series C Bonds to provide funds, together with other available funds, for the current refunding on February 1, 2005 of all or a portion of the Agency's outstanding Rental Housing Bonds, 1995 Series D (the "Refunded Bonds"). Additionally, proceeds of the Refunded Bonds on deposit in the Debt Service Reserve Fund will be used to fund the Debt Service Reserve Requirement for the Series C Bonds and the excess will be used to provide a portion of the funds to pay and redeem the Refunded Bonds and to pay costs of issuance of the Series C Bonds.

The Refunded Bonds were issued to provide funds, with other available funds, to refund the Agency's then outstanding Housing Development Bonds, 1976 Series A and B, 1978 Series A and B, 1979 Series A and 1985 Series A and B and its then outstanding Multifamily Bonds, 1976 Series A (collectively, the "Prior Bonds").

See Appendix A for information relating to (i) Mortgage Loans on Developments allocated to the Refunded Bonds, (ii) the remaining Mortgage Loans on Developments originally funded from proceeds of Bonds issued under the Bond Resolution and (iii) Mortgage Loans with respect to Developments previously contributed as additional security to the Bond Resolution.

The Bonds are general obligations of the Agency payable from any of its moneys, assets or revenues, subject to the provisions of other resolutions and indentures now or hereafter pledging particular moneys, assets or revenues, to particular notes or bonds, and federal or State laws heretofore or hereafter enacted appropriating funds to the Agency for a specified purpose. The net assets of the General Reserve are legally available if needed to pay debt service on any obligations of the Agency, including the Series C 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.)

There are further pledged as security for the payment of the Series C Bonds (on a parity with the Outstanding Bonds issued and to be issued under the Bond Resolution) amounts on deposit and investments in certain accounts and funds established pursuant to the Resolutions, including the Debt Service Reserve Fund established pursuant to the Bond Resolution in accordance with the Act. Under the Act, upon certification by the Agency, the State Legislature may, *but is not required to*, appropriate amounts which may be necessary to restore the Debt Service Reserve Fund to an amount equal to the Debt Service Reserve Requirement. (See "SECURITY FOR THE BONDS.")

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

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

THE AGENCY

Purpose

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

Structure

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

The present members of the Agency, who serve without compensation (except for per diem allowance and expenses for members not otherwise compensated as public officers), are listed below. A vacancy currently exists with respect to the sixth public member of the Agency.

Michael Finch, Chairman — Term expires January 2006, Minneapolis, Minnesota – Health Care Consultant

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

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

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

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

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

Marina Muñoz Lyon, Member — Term expires January 2007, St. Paul, Minnesota - Foundation Officer.

Staff

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

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

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

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

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

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

Robert Odman — Assistant Commissioner, Multifamily since April 3, 1995. From September 1977 to April 2, 1995, Mr. Odman was Director of Property Management for the Agency. From August 1976 to September 1977, he was a Housing Management Officer, Senior for the Agency. From March 1972 through August 1976, he was assistant vice president in charge of property management and sales for Parranto Brothers, Inc., St. Paul, managing apartments, mobile home parks and commercial property and selling both residential and commercial properties. Mr. Odman received his Bachelor of Science in Business Administration degree from Oklahoma City University, majoring in economics.

Jack Jenkins — Managing Director, Multifamily Operations since May 9, 1995. From June 1980 to May 1995, Mr. Jenkins was the Director of Multifamily Underwriting for the Agency. From July 1977 to June 1980, he was a Housing Development Officer, Senior for the Agency. From November 1973 to December 1976, he was an Assistant Project Manager/Project Planner for the Minneapolis Community Development Agency managing housing and commercial redevelopment projects, coordinating land acquisition, building demolition, land marketing and related activities. From June 1969 to June 1971, Mr. Jenkins worked for Parkins Rogers Associates, Detroit, Michigan, as an Assistant Planner involved in preparing urban renewal studies and 701 comprehensive development plans. Mr. Jenkins received his Bachelor of Architecture from the University of Michigan and his Masters of Urban Planning from Wayne State University, Detroit, Michigan.

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

Independent Auditors

The financial statements of the Agency as of and for the year ended June 30, 2004, included in this Official Statement as Appendix B have been audited by Deloitte & Touche LLP, independent auditors, as stated in their report appearing herein.

Disclosure Information

The Agency will covenant for the benefit of the Beneficial Owners of the Series C Bonds to provide annually certain financial information and operating data relating to the Agency (the "Agency Annual Report") and to provide notices of the occurrence of certain enumerated events, if material. The Agency Annual Report is to be filed by the Agency no later than nine months after the close of each fiscal year, commencing with the fiscal year ending June 30, 2005, 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."

In addition to the Agency Annual Report required by the Continuing Disclosure Agreement, the Agency also uses its best efforts to prepare a semiannual disclosure report for each of its multifamily bond resolutions and a quarterly disclosure report for each of its single family 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 Rental Housing Bond Resolution Disclosure Reports generally are filed semiannually. The most recent report is dated as of June 30, 2004. The Agency is also committed to providing appropriate credit information as requested by the rating agencies rating the securities.

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

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

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

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

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

	Fiscal Year Ended June 30,	
	2004	2003
Revenues and other additions to restricted net assets:		
Fees earned (1)	$7,631	$7,362
Interest earned on investments	617	1,690
Unrealized (loss) gain on investment securities, net	(2,042)	424
Administrative reimbursement from funds (2)(3)	14,349	14,372
	$20,555	$23,848
Expenses and other reductions to restricted net assets:		
Transfer of assets between funds (4)	$4,036	8,856
Salaries and benefits	13,131	13,124
Other general operating	5,782	5,915
	$22,949	27,895
Net changes in restricted net assets	(2,394)	(4,047)
Net assets restricted by covenant, beginning of year	32,509	36,556
Net assets restricted by covenant, end of year	$30,115	$32,509

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

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

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

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

The Agency also established an Alternative Loan Fund within the Residential Housing Finance 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 Residential Housing Finance Bond Resolution. All interfund transfers are approved by the Agency.

State Appropriations

Over the years, the State Legislature has enacted several laws making amendments to the Act and appropriating funds to the Agency which are to be used for low interest loans, grants, programs for low and moderate income persons and families and other housing related program costs. The State Legislature has appropriated funds to the Agency for its programs in every biennium since 1975. Over the past five years, appropriations to the Agency have totaled $269,119,000. Most of the appropriations have been expended or committed by the Agency.

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

Agency Indebtedness

The principal amount of bonds and notes of the Agency which are outstanding at any time (excluding the principal amount of any bonds and notes refunded) is presently limited to $3,000,000,000. The following table lists the principal amounts of indebtedness, all of which are general obligations of the Agency, outstanding as of August 31, 2004:

	Number of Series*	Bonds Maturing*	Original Principal Amount (in thousands)	Principal Amount Outstanding (in thousands)
Rental Housing Bonds	18	2004-2045	$373,480,000	$215,385,000
Residential Housing Finance Bonds	26	2004-2033	1,000,370,000	964,080,000
Single Family Mortgage Bonds	74	2004-2033	1,613,115,000	574,860,000
Total Debt Outstanding	118		$2,986,965,000	$1,754,325,000

*Does not include the original principal amount of any series of bonds that have been, as of August 31, 2004, defeased or paid in full, whether at maturity or earlier redemption.

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

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of proceeds of the Series C Bonds, certain funds related to the Refunded Bonds and funds to be contributed by the Agency, exclusive of accrued interest, are as follows:

Sources of Funds:	
Principal Amount of 2004 Series C Bonds	$80,000,000.00
1995 Series D Transferred Loans	79,582,076.76
1995 Series D Debt Service Reserve Fund	8,629,502.00
1995 Series D Revenue Fund	3,427,563.21
Total	$171,639,141.97
Use of Funds:	
Escrow Account for Redemption of Refunded Bonds	$83,627,654.23
Debt Service Reserve Fund	7,785,550.00
1995 Series D Transferred Loans	79,582,076.76
Underwriters' Fee	543,860.98
Costs of Issuance	100,000.00
Total	$171,639,141.97

DESCRIPTION OF THE SERIES C BONDS

The Series C Bonds are issuable only as fully registered bonds and will initially be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC") which will act as securities depository for the Series C Bonds. Wells Fargo Bank, National Association, Minneapolis, Minnesota, is to serve as Trustee under the Bond Resolution.

The Series C Bonds are issuable in the denominations of $5,000 or any integral multiple thereof of single stated maturities. The Series C Bonds mature on the dates and in the amounts set forth on the inside front cover hereof. The Series C Bonds shall bear interest from their dated date, payable semiannually thereafter on February 1 and August 1 of each year, commencing February 1, 2005, at the respective rates set forth on the inside front cover hereof until payment of the principal or redemption price on such Bond. Interest on the Series C 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. See Appendix E "Book-Entry-Only System."

For every exchange or transfer of Series C 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.

Sinking Fund Redemption

The Series C Bonds with a stated maturity of August 1, 2013 are subject to mandatory redemption in part on February 1, 2013, at their principal amount plus accrued interest, without premium, from funds in the Sinking Fund Account, in the year and in the principal amount as follows:

Date	Principal Amount
February 1, 2013	$2,420,000
August 1, 2013 (Maturity)	2,470,000

The Series C Bonds with a stated maturity of August 1, 2014 are subject to mandatory redemption in part on February 1, 2014, at their principal amount plus accrued interest, without premium, from funds in the Sinking Fund Account, in the year and in the principal amount as follows:

Date	Principal Amount
February 1, 2014	$2,405,000
August 1, 2014 (Maturity)	2,395,000

The Series C Bonds with a stated maturity of August 1, 2015 are subject to mandatory redemption in part on February 1, 2015, at their principal amount plus accrued interest, without premium, from funds in the Sinking Fund Account, in the year and in the principal amount as follows:

Date	Principal Amount
February 1, 2015	$2,450,000
August 1, 2015 (Maturity)	2,505,000

The Series C Bonds with a stated maturity of February 1, 2022 are subject to mandatory redemption in part on each February 1 and August 1, commencing February 1, 2016 and concluding August 1, 2021, at their principal amount plus accrued interest, without premium, from funds in the Sinking Fund Account, in the years and in the principal amounts as follows:

Date	Principal Amount	Date	Principal Amount
February 1, 2016	$2,565,000	August 1, 2019	$2,190,000
August 1, 2016	2,530,000	February 1, 2020	1,885,000
February 1, 2017	2,570,000	August 1, 2020	1,440,000
August 1, 2017	2,570,000	February 1, 2021	1,320,000
February 1, 2018	2,570,000	August 1, 2021	960,000
August 1, 2018	2,595,000	February 1, 2022 (Maturity)	455,000
February 1, 2019	2,485,000		

Special Redemption at Par

The Series C Bonds are subject to special redemption, at the option of the Agency, in whole or in part on any date, at a redemption price equal to the principal amount thereof plus accrued interest, without premium, (i) in the event the Agency receives or recovers a Recovery Payment relating to a Development refinanced by the Series C Bonds; (ii) in the event the Agency receives a Prepayment relating to a Development refinanced by the Series C Bonds; and (iii) in the event the Agency determines, upon advice of bond or tax counsel, that it is necessary or desirable to apply available funds of the Agency to the redemption of the Series C Bonds allocable to a Development refinanced by the Series C Bonds so as to assure continuing compliance with the requirements of applicable federal tax law relating the Series C Bonds. If a Recovery Payment or Prepayment is not sufficient to redeem all Outstanding Series C Bonds allocable to the affected Development, the Agency reserves the right to apply other funds to the special redemption of the Series C Bonds, in addition to the Recovery Payment or Prepayment. For a description of rights of the Agency to consent to a Prepayment of a Mortgage Loan, see Appendix D "SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION - Mortgage Provisions and Conditions—Prepayments."

Optional Redemption

The Series C Bonds are subject to redemption at the option of the Agency, in whole or in part, on any date on or after August 1, 2014, at a redemption price equal to the principal amount thereof plus accrued interest to the date of redemption, without premium

General Provisions

Any Series C Bonds to be redeemed other than upon mandatory sinking fund redemption shall be redeemed only upon receipt by the Trustee of a certificate signed by an officer authorized by the Agency and stating the maturity dates, principal amount and price of Series C Bonds to be redeemed. If less than all Series C Bonds of a single maturity are to be redeemed, the Series C Bonds to be redeemed shall be selected in $5,000 principal amounts at random by the Trustee. The Agency shall not at any time cause Series C Bonds to be 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 redemption.

The Trustee is required to mail a copy of the notice of redemption to the registered owner of any Series C Bond called for redemption at least 30 days prior to the redemption date. Any defect in or failure to give the required mailed notice of redemption shall not affect the validity of any proceedings for the redemption of Series C Bonds not affected by such defect or failure.

SECURITY FOR THE BONDS

The Bonds, including the Series C Bonds, are secured as provided in the Bond Resolution by a pledge and a grant of a security interest in (a) all proceeds of the sale of Bonds (other than proceeds deposited in trust for the retirement of outstanding bonds and notes), (b) all Mortgage Loans and Investments made or purchased from such proceeds, (c) all Revenues as defined in the Bond Resolution, and (d) money, Investments, and other assets and income held in and receivables of Funds established by or pursuant to the Bond Resolution. The Bonds, including the Series C 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, and State laws heretofore or hereafter enacted pledging particular funds 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 Bonds, including the Series C Bonds.

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

Mortgage Loans

The Bond Resolution requires, except in certain circumstances hereinafter described, that each Mortgage Loan be secured by a first mortgage lien (subject to permitted encumbrances) on the real property or leasehold interest of the Mortgagor under a lease with a term at least twice the length of the term of the Bonds which is the site of the Development financed by such Mortgage Loan, and all improvements thereon. At the initial closing for each Development the Agency receives a recorded Mortgage and a mortgagee's title insurance policy in the amount of the Mortgage Loan. The Agency may also participate with other parties in the making of a Mortgage Loan if the Agency's mortgage lien, in proportion to its participation, is on a parity with or superior to that of all other parties, but the interest rate and time and rate of amortization of that part of the Mortgage Loan made by the Agency and that made by others need not be equal. The Bond Resolution also permits the Agency, if it holds a Mortgage that constitutes a first mortgage lien on a Development, to make an additional Mortgage Loan for the Development and secure such additional Mortgage Loan by a Mortgage on a parity with or junior and subordinate to the first lien Mortgage held by the Agency. In addition, the Bond Resolution allows the Agency to make Subordinate Mortgage Loans with respect to a Development upon such terms and conditions as the Agency may deem appropriate, but solely from amounts which would otherwise be available to be removed by the Agency from the lien of the Bond Resolution.

Under the Bond Resolution, there shall at all times be scheduled payments of principal and interest on Mortgage Loans pledged under the Bond Resolution which, when added to any other legally enforceable payments on Mortgage Loans and interest and other income estimated by the Agency to be derived from the investment or deposit of money available therefor in any Fund or Account created by the Bond Resolution, will be sufficient to pay when due the Principal Installments of and interest on all Outstanding Bonds. The Agency may forgive a portion of the interest on any Mortgage Loan provided that, after giving effect to such reduction and all similar reductions then in effect, the Agency continues to comply with such covenant.

The scheduled payments of the Principal Installments of and interest on the Bonds are generally based on the receipt of scheduled payments by the Agency on the Mortgage Loans and any Subordinate Mortgage Loans, together with capitalized interest and estimated investment income of certain Funds and Accounts established by the Bond Resolution, to the extent provided therein. The ability of the Mortgagors to make scheduled payments to the Agency depends, among other things, on the Developments achieving and sustaining occupancy and rental levels necessary to generate rental income which, together with any applicable subsidies, is expected to be sufficient to meet the required loan payments, to fund required reserves and escrows and to meet operating expenses. Under the Bond Resolution, the Agency (unless otherwise required by any agency of the United States guaranteeing, insuring or otherwise assisting in the payment of the Mortgage Loan or Subordinate Mortgage Loan) may give its consent to Prepayment of a Mortgage Loan or Subordinate Mortgage Loan only if certain conditions as described under the caption "Summary of Certain Provisions of the Bond Resolution — Mortgage Provisions and Conditions -- Prepayments" in Appendix D hereto have been met. If any Mortgage Loan or Subordinate Mortgage Loan goes into default or investment income differs from the amounts estimated to be received, the amount of money available for the payment of Principal Installments of and interest on the Bonds may be adversely affected; however, as is described elsewhere in this Official Statement, moneys may be available from other sources, including the Debt Service Reserve Fund.

Debt Service Reserve Fund

The Debt Service Reserve Requirement for the Series C Bonds shall be an amount equal to the maximum annual debt service payable in any future fiscal year of the Agency with respect to the Series C Bonds issued and

Outstanding, initially $7,785,550. Upon issuance of the Series C Bonds, the sum of $7,785,550 will be deposited into the Debt Service Reserve Fund to meet the Debt Service Reserve Requirement for the Series C Bonds.

Upon issuance of the Series C Bonds, the aggregate Debt Service Reserve Requirement for the Bond Resolution is expected to be approximately $29,639,075 and the value of the investments in the Debt Service Reserve Fund is expected to be approximately $30,011,730. The Debt Service Reserve Fund secures all Bonds issued under the Bond Resolution, including the Series C Bonds, on a parity basis.

In accordance with the Act, the Agency may not issue additional Bonds unless, after such issuance, the amount in the Debt Service Reserve Fund is equal to or exceeds the Debt Service Reserve Requirement as defined in the Bond Resolution. However, the Bond Resolution does not require that any specific amount be established as the Debt Service Reserve Requirement for future Series of Bonds. Since all Bonds are secured on a parity basis by the Bond Resolution, variations in the Debt Service Reserve Requirement established and funded for various Series of Bonds will affect the security afforded by the Debt Service Reserve Fund to the Holders of the Bonds.

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 Legislature is legally authorized, *but not legally obligated,* to appropriate such amounts to the Debt Service Reserve Fund.

Additional Bonds

The Bond Resolution permits the issuance of additional Bonds, upon the adoption of a series resolution, to provide funds for the purpose of financing Mortgage Loans for Developments under the Agency's programs making Mortgage Loans and, in addition, to refund outstanding Bonds or other obligations issued to finance Mortgage Loans, upon certain conditions contained therein (See "Summary of Certain Provisions of the Bond Resolution—Additional Bonds"), without limitation as to amount except as may from time to time be provided by law. Any additional Bonds issued under the Bond Resolution will be on a parity with the Series C Bonds and the Outstanding Bonds, and will be entitled to the equal benefit, protection and security of the provisions, covenants and agreements of the Bond Resolution.

Nothing in the Bond Resolution prohibits the financing of other Developments under other bond resolutions.

PLEDGE OF THE STATE

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 Holders, are fully met and discharged.

RENTAL HOUSING PROGRAM

The Bond Resolution is currently the primary source of funds borrowed by the Agency to fund its multifamily housing programs. The proceeds of Bonds issued under the Bond Resolution are loaned by the Agency to for-profit, non-profit and limited profit sponsors which agree to construct or rehabilitate the Developments and lease the dwelling units therein principally to persons and families with low and moderate incomes.

The precise nature of the multifamily housing programs financed under the Bond Resolution has varied over the years and is expected to continue to vary based on the housing needs of the State of Minnesota and resources available to address those needs. There follows a description of the housing programs for which there are loans outstanding which were either funded from Bond proceeds under the Bond Resolution, or are pledged as additional security under the Bond Resolution. All of the Developments financed under the Bond Resolution in recent years have been processed under the Low and Moderate Income Rental Program. Recently originated loans have included the acquisition and rehabilitation of existing market rate rental properties, and loans for the preservation of existing Federal subsidies under the Section 8 and Section 236 programs.

The existing Developments financed by outstanding bonds under the Rental Housing Bond Resolution have been originated under the following programs:

—Low and Moderate Income Rental Program (including HUD Risk-Sharing Program)

—Section 8 Housing Assistance Payment New Construction/Substantial Rehabilitation Program (Uninsured Developments)

—Section 236 Interest Reduction Payments New Construction Program

—Market Rate Mortgage Loan Program

In addition to the programs listed above, loans contributed as additional security under the Bond Resolution have been financed under the following programs:

—Apartment Renovation Mortgage Program

—Group Homes for the Developmentally Disabled Program

The following table provides summary data regarding the outstanding loans financed or pledged as additional security for the Rental Housing Bond Resolution as of June 30, 2004 for the programs as listed above:

Rental Housing Program Mortgage Loan Program Summary as of June 30, 2004

Program	Number of Developments	Number of Units	Outstanding Loan Amount	Percentage of Total Amount
Section 8 Housing Assistance Payment Program*	143	6,882	$152,819,243	63.87%
Apartment Renovation Mortgage Program	11	316	3,568,883	1.49
Low and Moderate Income Rental Program**	25	2,066	58,984,936	24.65
Market Rate Mortgage Loan Program	13	628	15,426,870	6.45
Section 236 Interest Reduction Payments Program***	9	633	8,001,267	3.34
Group Homes for the Developmentally Disabled	5	44	466,855	.20
	206	10,569	$239,268,054	100.00%

*Includes eight FHA-insured Developments with 350 aggregate units and an aggregate outstanding loan amount of $8,183,585.

**Includes ten HUD Risk-Sharing Developments with 864 aggregate units and an aggregate outstanding loan amount of $21,034,661. Also includes three FHA-insured Developments with 401 units and an aggregate outstanding loan amount of $7,545,365.

***Includes one FHA-insured Development with 31 units and an outstanding loan amount of $295,543.

Low and Moderate Income Rental Program

The Low and Moderate Income Rental Program is the program under which the Agency is currently making loans funded from the proceeds of Bonds issued under the Bond Resolution. In the past few years, the Agency has made loans under this program with Bond proceeds to finance the acquisition and rehabilitation of existing rental developments. Some of the loans involve the preservation of existing Federal housing subsidies. The Federal housing subsidies preserved in connection with loans under the Low and Moderate Income Rental Program have included Section 8 project based assistance and Interest Reduction Payments Contracts under Section 236, both of which subsidy programs are described below.

In its Low and Moderate Income Rental Program, which is administered by the Multifamily Division of the Agency, the Agency uses the proceeds of Bonds issued under the Bond Resolution or prepayments of previously funded loans to provide permanent and construction loan financing for the acquisition/rehabilitation or construction of multifamily housing Developments. The Agency, under this program, may also use its general reserves to provide permanent and construction loan financing for the acquisition/rehabilitation, refinance/rehabilitation or construction of multifamily housing Developments. The proceeds of the Bonds or reserves are loaned by the Agency to nonprofit or limited profit sponsors which agree to construct or rehabilitate the Developments and lease the dwelling units therein principally to persons and families of low and moderate income. Several of the loans made under this program in recent years have been insured under the FHA Section 223(a)(7) and 241 insurance programs. Generally, loans financed under the Low and Moderate Income Rental Program have one or more low or non-interest bearing, non-amortizing second mortgages which facilitates keeping rents below market rate levels and reduces the amount of amortizing debt.

HUD Risk-Sharing Program

As part of its Low and Moderate Income Rental Program, the Agency has made and anticipates making additional Mortgage Loans in the future under the Department of Housing and Urban Development Housing Finance Agency Risk-Sharing Program for Insured Affordable Multifamily Project Loans ("HUD Risk-Sharing Program"). Section 542(c) of the Housing and Community Development Act of 1992, as amended (the "Risk-Sharing Act") authorized the Secretary of HUD to enter into risk-sharing agreements with qualified state or local housing finance agencies ("HFAs") to enable those HFAs to underwrite and process loans for which HUD, acting through FHA, will provide full mortgage insurance for eligible projects. HUD has promulgated regulations at 24 C.F.R. Part 266 (the "Regulations") pursuant to the Risk-Sharing Act. The "HUD Risk-Sharing Program" allows HFAs to carry out certain HUD functions, including the assumption of underwriting, loan management and property disposition functions and responsibility for defaulted loans, including reimbursement of HUD for a portion of the loss from any defaults that occur while the HUD contract of mortgage insurance is in effect.

The HUD Risk-Sharing Program requires that an interested HFA first be approved as a qualified housing finance agency. Upon notification of approval as a qualified HFA, the HFA must execute a risk-sharing agreement between the Commissioner of FHA and the HFA. The risk-sharing agreement must state the agreed upon risk apportionment between HUD and the HFA, the number of units allocated to the HFA, a description of the HFA's standards and procedures for underwriting and servicing loans and a list of HFA certifications designed to assure its proper performance.

Projects eligible to be insured under the HUD Risk-Sharing Program include projects receiving Section 8 or other rental subsidies, single room occupancy projects, board and care/assisted living facilities and elderly projects. Transient housing or hotels, projects in military impact areas, retirement service centers, and nursing homes or intermediate care facilities are specifically excluded from eligibility for insurance under the program.

The Agency has been designated by HUD as a "qualified HFA" under the Risk-Sharing Act. The Agency has entered into a risk-sharing agreement with HUD dated as of May 3, 1994 (the "Risk-Sharing Agreement") which sets out the terms for the Agency's participation in the HUD Risk-Sharing Program. The Agency has a "Level I" and "Level II" approval under the regulations which means HUD agrees to reimburse the Agency 50% to 90% of any losses incurred as a result of a default under a loan, which permits the Agency to use its own underwriting standards and loan terms and conditions (as disclosed and submitted with its application) to underwrite and approve loans with review by the local HUD office. Substantially all of the Developments committed to be financed to date under the HUD Risk-Sharing Program have been insured based upon a 50/50 split of any losses.

A mortgagee under an FHA-insured mortgage is entitled to receive the benefits of insurance after the mortgagor has defaulted and such default continues for a period of 30 days. If the default continues to exist at the end of the 30 day grace period, the mortgagee is required to give HUD written notice of the default within 10 days after such grace period and monthly thereafter, unless waived by HUD, until such default has been cured or the Agency has filed an application for an initial claim payment. Unless a written extension is granted by HUD, the Agency must file an application for initial claim payment (or, if appropriate, for partial claim payment) within 75 days from the date of default unless extended at the request of the HFA. The initial claim amount is based on the unpaid principal balance of the mortgage note as of the date of default, plus interest at the mortgage note rate from the date of default to the date of initial claim payment. HUD must make all claim payments in cash. The initial claim payment is equal to the initial claim amount, less any delinquent mortgage insurance premiums, late charges and interest assessment under the Regulations. Within 30 days of the initial claim payment, the HFA must use the proceeds of the initial claim payment to retire any Bonds or any other financing mechanisms and must also issue to HUD a debenture, payable in five years unless extended, in an amount equal to the amount of the initial claim payment, representing the HFA's obligation to HUD under its Risk-Sharing Agreement.

The Regulations provide that not later than 30 days after either (1) foreclosure sale or sale after acceptance of a deed-in-lieu of foreclosure or (2) expiration of the term of the HFA debenture, loss on the mortgaged property is determined and allocated between HUD and the HFA in accordance with their respective percentages of risk specified in the mortgage note and risk-sharing agreement.

Section 8 Housing Assistance Payment Program

General Description

Under the Section 8 Housing Assistance Payment Program, HUD provides for the payment of a subsidy for the benefit of lower income families which are defined generally as those families whose income does not exceed 80% of the median income for the area as determined by HUD. Almost all of the Developments with Section 8 subsidies financed by the Agency until recent years were financed from a set-aside to the Agency from HUD under which the Developments were underwritten and financed by the Agency, and the Agency entered into Annual Contributions Contracts with HUD ("ACC") and a Housing Assistance Payments Contract ("HAP Contract") with owners under which the subsidy payments were made on behalf of tenants in the Developments. In addition to the Developments with Section 8 contracts with the Agency under the state agency set-aside program, several loans were made for Developments where the loans are insured under a program of the Federal Housing Administration which are the subject of 20-year Section 8 Contracts directly between the owner and HUD. For eight of the Developments, the original 20-year contracts for the Developments have expired, with contracts typically being renewed for a period of one to five years. It is anticipated that HUD will provide the opportunity for extension of expiring project-based Section 8 contracts under the provisions of Section 524 of the Multifamily Assisted Housing Reform and Affordability Act of 1997, as amended.

Contracts Under the Section 8 Housing Program

Section 8 housing assistance payments have been provided, in the case of Developments which are permanently financed by the Agency and which utilize a portion of the set-asides of Section 8 contract authority assigned to the Agency, through an ACC between HUD and the Agency and a HAP Contract between the Agency and the owner of the assisted development. Pursuant to the ACC, the Agency is to receive an annual contribution from HUD, payable monthly in advance, with respect to each assisted dwelling unit and is to, in turn, disburse or credit monthly housing assistance payments to the owner of the Development under the HAP Contract. For projects with Section 8 units from a source other than the state agency set-aside program, the HAP Contract has been directly between the owner and HUD.

Contract Term State Agency Set-Aside Program

Under the HUD regulations, the initial term of the HAP Contract for the Developments to be financed as uninsured Developments under the state agency set-aside program was either five or 20 years with provisions for renewal for five-year periods totaling either 30 or 40 years, including the initial period. Under the terms of the Agency's regulatory agreements with Development owners, the owners are required to renew their respective HAP Contracts as long as their mortgage is outstanding. The ACC remains in effect as long as the HAP Contract is in effect. Nonrenewal of the HAP Contract requires the written consent of the Agency whether or not the owner has mortgage financing remaining in place. See, however, "Certain Information Regarding Housing Assistance Payment Contracts – Recent Developments."

Although the Section 8 housing assistance payments are made directly or indirectly to the owner and, in effect, represent rental income, the HAP Contract may, with HUD's approval, be pledged by the owner to the Agency as mortgage lender on the Development. All of the HAP Contracts covering the Agency's Developments are so pledged. Housing assistance payments by HUD do not terminate if the Mortgage Loan on the Development goes into default, so long as the owner has not breached any of the owner's obligations under the HAP Contract, including among other responsibilities, an obligation to maintain and operate the Development so as to provide decent, safe and sanitary housing. In the event of breach of the HAP Contract by the owner, HUD may abate or terminate housing assistance payments after giving the owner and the Agency reasonable opportunity to take corrective action. Under the HUD regulations, in the event of assignment, sale or other disposition of the Development agreed to by the Agency and approved by HUD, foreclosure, or assignment of the mortgage or deed in lieu of foreclosure, the HAP Contract and ACC will continue in effect and housing assistance payments will continue in accordance with the terms of the HAP Contract unless approval to amend or terminate the HAP Contract or ACC has been obtained from the Assistant Secretary for Housing. See, however, "Certain Information Regarding Housing Assistance Payment Contracts – Recent Developments."

The Agency Regulatory Agreement

The uninsured Section 8 assisted Developments and developments financed under the HUD Risk-Sharing Program previously financed as described in Appendix A are all subject to regulatory agreements with the Agency, regulating their rents, profits, occupancy, management and operation. Under such regulatory agreements, a limited-profit entity may not make distributions to its members in any one year in excess of 15% of its equity in a Section 8 assisted Development. In its administration of the Program to date, the Agency has made Mortgage Loans to limited-profit Mortgagors of up to 100% of total development costs. Mortgage Loans for Developments are for terms of 30 to 40 years.

Certain Information Regarding Housing Assistance Payment Contracts

General

The following discussion provides certain information with regard to the HAP Contracts and the Section 8 program which may affect payments made by HUD pursuant to the HAP Contracts and a discussion of recent developments with respect to HUD and the Section 8 program. Such information is not comprehensive or definitive and, as appropriate, is qualified in its entirety by reference to the United States Housing Act of 1937, as amended (the "Housing Act").

Adjustments in Contract Rents

Each HAP Contract provides for certain adjustments in contract rents. At least annually, HUD publishes an annual adjustment factor; interim revisions may be made where market conditions warrant. The annual adjustment factor is applied on the anniversary date of each HAP Contract to contract rents, resulting in upward or downward adjustment except that contract rents may not be reduced below the contract rents that were in effect on the effective date of the HAP Contract. However, pursuant to federal legislation enacted in 1997, if the contract rents for a development exceed the applicable HUD fair market rents, then contract rents may not be increased beyond comparable market rents (plus the differential between the initial contract rents and the original comparable rents) as determined by independent appraisals of at least three comparable local developments submitted by the owner. In addition, special additional adjustments may be granted to reflect increases in the actual and necessary expenses of owning and maintaining the development which have resulted from substantial general increases in real property taxes, assessments, utility rates or similar costs if the owner demonstrates that the automatic annual adjustments have not provided adequate compensation. Adjustments may not, however, result in material differences between rents charged for assisted units and unassisted units of similar quality and age in the same market area except to the extent of the initial difference at the time of contract execution. Under current law, "[t]he Secretary may not reduce the contract rents in effect on or after April 15, 1987, for newly constructed, substantially rehabilitated, or moderately rehabilitated projects assisted under this section, unless the project has been refinanced in a manner that reduces the periodic payments of the owner." 42 U.S.C. §1437f(c)(1)(C). There can be no assurance that increases in contract rents, if any, will result in revenues sufficient to compensate for increased operating expenses of the Developments. There can be no assurance that there will not be a decrease in contract rents which would adversely affect the ability of the owners of the Developments to pay principal and interest on the Mortgage Loans, which in turn would adversely affect the ability of the Agency to make timely payments of interest and principal on the Bonds with amounts pledged under the Bond Resolution. (See "Recent Developments" below.)

Limitations on Increases in Housing Assistance Payments

An increase in contract rents, because of the application of an annual adjustment factor or a special additional adjustment, will normally result in an increase in Housing Assistance Payments payable to the owner under the HAP Contract. The annual maximum Housing Assistance Payments are, however, initially limited to the initial contract rents. A project account is required to be established and maintained by HUD in an amount determined by HUD to be consistent with its responsibilities under the Housing Act out of amounts by which the annual maximum housing assistance commitment under the HAP Contract (which is set forth in each HAP Contract) exceeds the amount actually paid out under the HAP Contract each year. Furthermore, whenever the estimated annual Housing Assistance Payment exceeds the annual maximum housing assistance commitment and would cause the amount in the project account to be less than 40 percent of such maximum commitment, HUD is required within a reasonable period of time to take additional steps authorized by Section 8(c)(6) of the Housing Act in order to assure that Housing Assistance Payments will be increased on a timely basis. Section 8(c)(6) of the Housing Act authorizes, among other things, "the reservation of annual contributions authority for the purpose of amending housing assistance contracts, or the allocation of a portion of new authorizations for the purpose of amending housing assistance contracts" to provide for such assurance. The above language notwithstanding, as a matter of practice HUD does not increase annual contributions contract authority until such time as the project account has been exhausted.

Recent Developments

In July, 2002, HUD announced an interpretation of its Office of General Counsel with respect to the form of HAP Contract in use prior to 1979 which interpretation provides that the HAP Contract terminates upon any prepayment of the original permanent financing of the related project. This would include any refinancing that included a prepayment. HUD also stated that it would agree to amend any HAP Contract to eliminate such termination. However, all of the currently outstanding Mortgage Loans of the Agency which involve this form of HAP Contract are the original permanent financing provided by the Agency.

In recent years, there have been numerous pronouncements from HUD officials and various elected officials as to the future of HUD and the Section 8 program. The scope of these pronouncements have ranged from a total elimination of HUD and of the Section 8 program to a restructuring of HUD and the administration and reduction in funding of the Section 8 program. In addition, the consolidation of HUD's programs has been proposed as well as the transfer of certain administrative responsibilities for HUD programs, including the Section 8 program, to state and local governments and other entities. Furthermore, Congress has proposed reductions in all federal spending including the funding of HUD and its programs, including the Section 8 program.

HUD officials have from time to time proposed to Congress that it repeal the provision of the Housing Act prohibiting the Secretary of HUD from reducing contract rents below the contract rents in effect as of April 15, 1987, as described above under "Adjustments in Contract Rents." It is not clear whether such a repeal would withstand a constitutional challenge. The effect of repealing those provisions would be to permit HUD to reduce the contract rents for the Developments to "market rents," but not lower than the initial contract rents, plus the initial difference, approved by HUD for the development.

At this time, the Agency cannot predict the terms of the legislation, if any, which may be enacted which may restructure and change HUD, its administration and its programs (including the Section 8 program) and the funding of HUD and its programs. The Agency cannot predict whether any such legislation, if enacted, would adversely affect the ability of the Agency to make timely payments of interest and principal on the Bonds, including the Series C Bonds, with amounts pledged under the Resolutions.

Furthermore, there have been several court decisions with respect to the Section 8 program and the Section 8 insured HAP Contracts. The United States Supreme Court, in its 1993 decision, *Cisneros v. Alpine Ridge Group*, et al., held that housing assistance payment contracts between private landlords and HUD did not prohibit the use of comparability studies with private market rents to impose an independent cap on formula-based rent adjustments. In a January, 1997 decision, *National Leased Housing Association, et al., v. United States*, the United States Court of Appeals for the Federal Circuit upheld a decision of the Court of Claims that the "overall limitation" provision contained in the rent adjustment section in HAP Contracts (which states, in effect, that notwithstanding any other provision of the HAP Contract, adjustments provided for in that section of the HAP shall not result in material differences between the rents charged for assisted and comparable unassisted units except to the extent that differences existed with respect to the contract rents set at contract execution or cost certification, as applicable) permits HUD to use comparability studies to decrease contract rents to eliminate material differences between rents charged for assisted and comparable unassisted units which are greater than the initial difference. In addition, the Court of Appeals affirmed the decision of the Court of Claims that HAP Contracts permit HUD to reduce rents below a previous year's rent levels through the use of comparability studies, and that the "initial difference" referred to in the HAP Contract is determined by the initial dollar amount and not by a percentage of the initial rents.

At this time, the Agency is unable to predict what actions, if any, HUD or the Congress will take in the future with respect to such rent adjustments. Actions by HUD in the future could have the effect of limiting upward adjustments in contract rents or of decreasing contract rents currently in effect to eliminate any material difference between the contract rents and rents charged for comparable unassisted units, except to the extent of the initial differences. Such actions, if taken, could adversely affect the ability of the owners of the Developments to pay principal and interest on the Mortgage Loans, which in turn could adversely affect the ability of the Agency to make timely payments of interest and principal on the Bonds with amounts pledged under the Resolutions. As noted above under "Adjustments in Contract Rents," Congress has passed legislation and HUD has implemented procedures to restrict contract rent increases above fair market rents for the 1997 and subsequent federal fiscal years.

Project Based Vouchers

The Agency recently started to work with local housing and redevelopment authorities and public housing authorities to provide for project based Section 8 Housing Choice Vouchers for a portion of the units in a development financed under the Low and Moderate Income Rental Program. Under this program approximately 20% of the units in a proposed development would receive year-to-year project based Housing Choice Vouchers with the rents set at the Section 8 Existing Housing Fair Market Rent ("FMR") or payment standard. The Agency has found that the HUD published FMR or payment standard is typically less than the market rent that could be charged without the subsidy; therefore, staff considers there to be minimal risk in the event of nonrenewal of the year-to-year ACC.

Section 8 Contract Administration

Recently, HUD began a program under which HUD enters into contracts with other entities for the administration of Section 8 contracts made directly between HUD and owners of the developments. The Agency has been selected as the Section 8 contract administrator under this program for the State of Minnesota, and has entered into an annual contributions contract with HUD to administer the contract. The Agency expects to administer the Section 8 contracts for the projects financed with loans insured by the Federal Housing Administration during the term of the annual contributions contract with HUD until further notice from HUD.

Section 236 Interest Reduction Payments Program

Under the Section 236 program, HUD makes monthly interest reduction payments directly to the Agency as mortgage lender on behalf of the Mortgagor. The amount of the monthly HUD payment is calculated as the difference between the monthly payment that would be required for principal, if any, interest (not in excess of the maximum rate approved by HUD for loans insured by the Federal Housing Administration ("FHA") as of the date of the agreement plus one half of one percent per annum) and fees and charges (not in excess of one half of one percent per annum of the principal amount of the Mortgage Loan) which the Mortgagor is obligated to pay with respect to the subsidized dwelling units and the monthly payment that would be required for principal, if any, and interest which the Mortgagor would be required to pay with respect to the subsidized dwelling units if the Mortgage were to bear interest at the rate of 1% per annum. The Section 236 program requires that the Mortgagor covenant, among other things, that (1) the Mortgagor will establish basic (subsidized) rents and fair market rents for each subsidized dwelling unit, (2) the rent for each subsidized dwelling unit shall be equal to 30% of the tenant's income or the basic rent whichever is greater up to a maximum of the fair market rent, (3) the Mortgagor will limit admission to subsidized dwelling units to families whose incomes do not exceed the federal income limits, and (4) the Mortgagor will remit to HUD monthly the amount by which the total rents collected on all subsidized dwelling units exceeds the sum of the approved basic rents for all such units.

Beginning in 1999, the Agency has made loans to new and existing owners of Developments originally financed under the Section 236 program to refinance the original Mortgage Loan and make additional Mortgage Loans for rehabilitation and other project purposes in order to maintain the Developments as subsidized housing. For the Section 236 refinancings, the interest reduction payments are continued after the refinancing in various forms in accordance with the original payment schedule through the scheduled maturity date of the original Mortgage Loan. Since the new Mortgage Loans have had 30-year maturities, the term of the interest reduction payments is less than the term of the Mortgage Loan. The reduction in project revenue at the end of the term of the Section 236 contract has been taken into account in the underwriting of the new Mortgage Loans. In the one instance where a Section 236 mortgage was refinanced for an existing owner, the loan was financed from Agency resources and not financed or pledged under the Bond Resolution.

For Developments with uninsured first mortgage loans or loans made under the HUD Risk-Sharing Program, the Agency enters into agreements for interest reduction payments among HUD, the Agency and the Mortgagor which provide for administration of the Section 236 program by the Agency and interest reduction payments by HUD. HUD shall terminate payments under the agreement if the Development is acquired by the Agency or any owner not eligible under Section 236(b) of the National Housing Act. HUD shall have discretion to terminate payments at any time under the agreement (1) upon default by the Mortgagor or the Agency under any provision of the agreement; or (2) if any action of foreclosure is instituted by the Agency, unless the Agency (i) gives to HUD in advance written notice of its intention to institute such foreclosure, and (ii) submits to HUD in advance a plan acceptable to HUD providing for continuity of the eligibility of the Development for receiving the benefits of Section 236. If payments are terminated or to be terminated pursuant to the agreement, such payments may be reinstated or continued by HUD at its discretion and on such conditions as it may prescribe. The rights and obligations under the agreement are not assignable by the Agency or by the Mortgagor without prior written approval by HUD; except that, in connection with the issuance of its notes and bonds for the purpose of providing financing under the Development's Mortgage, the Agency may assign or pledge the Development's Mortgage and its rights thereunder as security to its note or bond holders or to a trustee without such prior written approval of HUD.

Apartment Renovation Mortgage Program

The purpose of this Program is to maintain and improve the rental housing in Minnesota that is affordable to low and moderate income households. Developments were financed under this Program from 1987 to 1991 using taxable bond financing, all of which has since been redeemed. The Agency has continued to make loans under this Program, although all of the recent loans have been financed from Agency resources outside of the Bond Resolution. This Program is intended to provide Mortgage Loans that will refinance existing debt or finance the purchase of rental housing and provide construction financing for moderate rehabilitation of the Developments. The intent of the Program is to stabilize rents by providing long-term financing. The Program is not intended to provide permanent mortgage funds to replace construction financing. An additional purpose of the Program is to provide funds for rehabilitation that will stabilize energy costs in addition to improving the property. In general, 10-20% of the total mortgage will be used for rehabilitation which allows rents to remain close to their pre-rehabilitation level. Greater levels of rehabilitation may be financed provided certain conditions are met.

Market Rate Mortgage Loan Program

In its Market Rate Mortgage Loan Program, which is administered by the Multifamily Division of the Agency, the Agency issues Bonds under the Bond Resolution to provide permanent and construction loan financing for the acquisition/rehabilitation or construction of multifamily housing Developments. The proceeds of the Bonds are loaned by the Agency to nonprofit or limited profit sponsors which agree to construct the Developments and lease the dwelling units therein principally to persons and families of low and moderate income. The Agency is not presently making any Mortgage Loans pursuant to this Program.

Group Homes for the Developmentally Disabled Program

These Developments are designed for developmentally disabled persons and are aided by the Minnesota Department of Human Services. These Developments are non-institutional residential facilities for occupancy primarily by individuals of low and moderate income who are mentally retarded or who are otherwise developmentally disabled. Such Developments must be licensed by the Minnesota Department of Human Services and approved by the Minnesota Department of Health, and, therefore, the Agency does its own processing of such Developments only to a limited extent. The Minnesota Department of Human Services pays the owner of each such Development a per diem reimbursement for each eligible occupant in accordance with a provider agreement with the owner. The reimbursements will constitute virtually the entire revenue available from these Developments to cover Mortgage Loan payments to the Agency, maintenance and operating expenses and social services provided. The reimbursements are subject to annual revision and termination by the Minnesota Department of Human Services in accordance with its rules and regulations, and are dependent upon the appropriation of county, state and federal funds. Each owner signs a pledge agreement which provides for the payment of per diem reimbursement by the Department of Human Services directly to the Agency in the event of the owner's default, and further requires that the owner take no action to terminate the provider agreement during the term of the Mortgage Loan.

Monitoring of Developments

In an attempt to minimize the risk inherent in long-term Mortgage Loans, the Agency has established the following guidelines for the monitoring of Developments:

- The Agency's Accounting Division is responsible for monthly billing of principal and interest and escrows, and for paying insurance, property taxes and other expenses in a timely manner.

- The Agency's Management Services Section is responsible for the supervision of all developments financed by the Agency, beginning with the feasibility processing and continuing through the new construction or rehabilitation stages. During the latter stages of construction or rehabilitation, the Management Services Section works with sponsors and their marketing agents in reviewing marketing plans. The Section's primary responsibility is to assist in the preparation of the management plan and to monitor the implementation of the management plan. The management plan is prepared prior to occupancy of a Development and includes information on the management agent's proposed method of operating the Development Such information relates to the organizational structure and on-site duties and staffing of the management agent, initial and on-going marketing plans, contents of an orientation handbook for residents and requirements for reporting budget and energy conservation information.

The Management Services Section generally monitors the operations of Developments on an ongoing basis in the following ways though each program may differ in some respects:

- *On-Site Inspections*. After initial marketing has been completed, on-site inspections are periodically made to check on management performance. Reports summarizing findings of inspections are submitted to the owner and management agent along with a timetable for correcting deficiencies, if necessary.

- *Reporting Requirements*. Management agents for each Development are requested to submit regular accounting and occupancy reports to the Agency's Management Section. Smaller, non-subsidized Developments have proven to be erratic in meeting the Agency's reporting requirements. The reports are reviewed by the Housing Management Officer assigned to each Development in order to identify significant deviations from the operating budget or change in occupancy.

  The Agency generally receives the following financial information related to each Development:

  (i) Monthly Operating Report—due the 15th day of the following month;

  (ii) Analysis of Accounts Payable and Receivable—due the 15th day of the month following the end of the quarter;

  (iii) Analysis of Reserve Accounts—prepared internally monthly; and

  (iv) Annual Budget—due 60 days prior to end of the preceding fiscal year.

  For seasoned, well-maintained, financially sound Developments, the Agency may only require annual operating reports in the future.

- *Training Sessions*. The Agency holds training sessions for new management agents and the on-site resident manager to acquaint them with Agency and HUD procedures and requirements. Sessions are held for each Development prior to occupancy and periodically thereafter.

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 and rehabilitation of multifamily rental housing in the State of Minnesota. The assets devoted to these programs are briefly described in the notes to the financial statements of the Agency.

TAX EXEMPTION AND RELATED CONSIDERATIONS

General

The applicable federal tax law establishes certain requirements that must be met subsequent to the issuance and delivery of the Series C Bonds in order that interest on the Series C Bonds be and remain excludable from gross income under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"). These requirements include, but are not limited to (1) provisions relating to the ownership, use and occupancy of the Developments refinanced by the Series C Bonds, including the requirement that a certain portion of each Development be occupied or held for occupancy by low and moderate income persons and families, (2) provisions relating to the application of the proceeds of the Series C Bonds, (3) provisions which prescribe yield and other limits relative to the investment of the proceeds of the Series C Bonds and other amounts, and (4) provisions which require that certain investment earnings related to the Series C Bonds be rebated periodically to the federal government. Noncompliance with such requirements may cause interest on the Series C Bonds to become includable in gross income for purposes of federal and State of Minnesota income taxation retroactive to their date of original issue, irrespective in some cases of the date on which such noncompliance is ascertained or occurs.

The Bond and Series Resolutions, and loan documentation pertaining to the Developments refinanced by the Series C Bonds, contain provisions (the "Tax Covenants"), including covenants of the Agency and the Owners, pursuant to which, in the opinion of Bond Counsel, the current requirements of applicable federal tax law can be satisfied.

Assuming compliance with the provisions of the Tax Covenants, and based upon representations of the Agency and the Owners as to the application of the proceeds of the Series C Bonds and the nature, use, cost and useful life of the Developments refinanced by the Series C Bonds, in the opinion of Dorsey & Whitney LLP, Bond Counsel, under existing laws, regulations, rulings and decisions, interest on the Series C Bonds is not includable in gross income of the owners thereof for federal income tax purposes; provided that Bond Counsel expresses no opinion as to the exclusion from federal gross income of interest on any Series C Bond for any period during which such Series C Bond is held by a person who is a "substantial user" of a Development refinanced by the Series C Bonds or a "related person" thereto, as such terms are defined in Section 147(a) of the Code.

The Code imposes an alternative minimum tax with respective to individuals and other taxpayers on alternative minimum taxable income. In the opinion of Bond Counsel, interest on the Series C Bonds will not be treated as a preference item for purposes of calculating the federal alternative minimum taxable income of individuals and corporations. Interest on the Series C Bonds will be included in adjusted current earnings for purposes of computing federal alternative minimum taxes imposed on corporations.

In addition, in the opinion of Bond Counsel, based upon existing law and assuming compliance with the provisions of the Tax Covenants, interest on the Series C Bonds is not includable in the taxable net income of individuals, trusts and estates for Minnesota income tax purposes; provided that Bond Counsel expresses no opinion as to the exclusion from Minnesota taxable net income of interest on any Series C Bond for any period during which such Series C Bond is held by a person who is a "substantial user" of a Development refinanced by the Series C Bonds or a "related person" thereto, as such terms are defined in Section 147(a) of the Code. Interest on the Series C Bonds is includable in income for purposes of the Minnesota alternative minimum tax applicable to individuals, trusts and estates. Interest on the Series C Bonds is includable in the income of financial institutions and corporations for purposes of the Minnesota franchise tax.

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

The market value and marketability of the Series C Bonds may be adversely affected by future changes in federal or Minnesota tax treatment of interest on the Series C 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 SERIES C BONDS OR RECEIPT OF INTEREST ON THE SERIES C 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 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 Series C Bonds would become taxable (for Minnesota income tax purposes) under this Minnesota statutory provision.

LEGAL MATTERS

The validity of the Series C Bonds and the tax exemption of interest thereon are subject to the legal opinion of Dorsey & Whitney LLP, Minneapolis, Minnesota, Bond Counsel. A copy of the opinion of said firm, substantially in the form set forth in Appendix F hereto, will be available at the time of delivery of the Series C Bonds. Certain legal matters will be passed upon for the Underwriters by their counsel, Kutak Rock LLP, Atlanta, Georgia.

FINANCIAL ADVISOR

The Agency has appointed Caine Mitter & Associates Incorporated to serve as financial advisor to the Agency on matters related to the issuance of the Series C Bonds.

UNDERWRITERS

Series C Bonds in an aggregate principal amount of $17,215,000 are being purchased by the Underwriters, for which UBS Financial Services Inc., Piper Jaffray & Co. and RBC Dain Rauscher Inc. are acting as Managers. The Underwriters are to be paid a fee of $543,860.98 with respect to the purchase of such Series C Bonds and the placement of the Placed Bonds (as described below). The Underwriters may offer and sell such Series C Bonds to certain dealers and certain dealer banks at prices lower than the public offering prices stated on the inside front cover hereof.

Series C Bonds in an aggregate principal amount of $62,785,000 (the "Placed Bonds") are being directly placed by the Agency with an institutional investor and are not being purchased or offered by the Underwriters.

MISCELLANEOUS

This Official Statement is submitted in connection with the offering of the Series C 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 Series C Bonds.

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

MINNESOTA HOUSING FINANCE AGENCY

By /s/ Timothy Marx
Commissioner

October 29, 2004.

APPENDIX A

DESCRIPTION OF MORTGAGE LOANS AND DEVELOPMENTS PREVIOUSLY FINANCED BY RENTAL HOUSING BONDS AND PLEDGED AS ADDITIONAL SECURITY UNDER THE RENTAL HOUSING BOND RESOLUTION INCLUDING THOSE REFINANCED WITH PROCEEDS OF THE SERIES C BONDS

APPENDIX A1

DESCRIPTION OF MORTGAGE LOANS AND DEVELOPMENTS PREVIOUSLY FINANCED BY RENTAL HOUSING BONDS 1995, SERIES D

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DESCRIPTION OF MORTGAGE LOANS AND DEVELOPMENTS PREVIOUSLY FINANCED BY RENTAL HOUSING BONDS AND PLEDGED AS ADDITIONAL SECURITY UNDER THE RENTAL HOUSING BOND RESOLUTION

MORTGAGE LOANS AND DEVELOPMENTS PREVIOUSLY FINANCED BY RENTAL HOUSING BONDS 1995, SERIES D

Development Name	Location	Mortgage Loan Interest Rate	Outstanding Mortgage Loan Balance As Of 6/30/04	Undisbursed Mortgage Amount	Development Reserves (1) As Of 6/30/04	Mortgage Note Maturity	Program Type	Subsidy Expiration	No. of Subsidized Units	Total No. of Units
3100 4th Ave	Minneapolis	7.500	$ 114,232	$ -	$ 20,808	01/01/24	LMIR	N/A	-	10
Anoka West	Anoka	6.750	592,289	-	19,291	08/01/25	LMIR	N/A	-	32
Birchwood East	Virginia	6.750	928,025	-	3,550	05/01/18	HAP	06/01/17	30	60
Blackduck	Blackduck	7.500	442,758	-	286,888	12/01/17	HAP	10/01/16	30	30
Boardwalk	Wayzata	6.500	1,402,644	-	245,470	12/01/19	HAP	10/23/18	77	77
Canadian Terrace	Minneapolis	7.550	301,421	-	106,952	09/01/16	MR	N/A	-	19
Cascade	Fergus Falls	6.500	700,540	-	354,633	01/01/19	HAP	05/31/18	36	36
Centennial Plaza	Le Center	7.500	465,480	-	276,328	12/01/17	HAP	12/10/16	40	40
Chicago Ave Apts	Minneapolis	7.450	1,002,770	-	347,865	12/01/22	LMIR/HAP/FHA	(A)	60	60
Cloverdale	St. Joseph	7.250	1,026,148	-	292,330	10/01/21	HAP	03/28/20	36	36
Countryside TH	Fairmont	6.500	1,386,311	-	487,675	12/01/19	HAP	09/22/18	71	71
Creek Terrace	Minneapolis	6.500	2,099,552	-	342,516	11/01/21	HAP	04/24/20	16	82
Eastgate	Montevideo	7.250	1,245,991	-	147,411	09/01/21	HAP	07/31/20	46	46
Eastport	Mankato	6.500	1,797,338	-	589,776	10/01/19	HAP	08/16/18	78	78
Ewing Square	Brooklyn Center	7.250	661,160	-	157,756	01/01/20	HAP	01/02/19	23	23
Fifteen Hundred Perkins	Windom	7.250	1,194,604	-	170,840	03/01/21	HAP	11/27/19	48	48
Garden Court	Winnebago	6.500	561,058	-	107,214	01/01/19	HAP	05/01/18	36	36
Grahek Apts	Ely	7.250	841,179	-	371,871	11/01/19	HAP	03/30/19	42	42
Greenwood Apts	Wadena	7.250	1,058,892	-	357,636	02/01/20	HAP	04/27/19	48	48
Greenwood Place	Faribault	7.250	1,376,289	-	196,374	10/01/20	HAP	06/05/19	51	51
Greysolon Plaza	Duluth	7.250	2,151,973	-	778,557	10/01/11	HAP	10/22/10	150	150
Harbor Point	Two Harbors	7.250	836,084	-	185,231	06/01/19	HAP	10/27/18	41	41
Heartland Apts	Pine River	7.250	739,476	-	855,785	12/01/19	HAP	12/12/18	30	30
Heights Manor	Columbia Heights	6.500	1,364,489	-	654,028	12/01/19	HAP	09/22/18	85	85
Henry Hill	Granite Falls	7.250	675,903	-	802,663	05/01/10	HAP	10/19/09	54	54
Heritage Prairie	Wabasso	6.500	395,731	-	583,930	01/01/19	HAP	06/15/18	28	28
Heritage Square	Hutchinson	7.550	520,870	-	161,122	11/01/16	MR	N/A	-	24
Highland Commons	Arlington	6.500	710,648	-	167,549	10/01/19	HAP	01/09/19	41	41
Highwood Homes	Prior Lake	7.250	575,001	-	183,474	11/01/11	HAP	09/29/10	36	36
Hillside Homes	Spring Valley	6.500	573,402	-	145,571	10/01/19	HAP	12/14/18	37	37
Hillside Manor East	Moose Lake	7.250	631,916	-	350,031	03/01/11	HAP	07/08/10	41	41
Hunters Ridge	Minnetonka	6.500	2,628,955	-	696,230	08/01/21	HAP	09/04/20	25	123
Jefferson Square	Northfield	7.250	855,691	-	363,784	08/01/11	HAP	07/01/10	50	50
Kaleva	New York Mills	7.250	336,710	-	252,894	11/01/10	HAP	11/02/09	30	30
Lake Crystal Elderly	Lake Crystal	7.250	1,044,547	-	540,351	03/01/21	HAP	06/12/19	43	43
Larson Commons	Cloquet	7.250	2,037,158	-	604,881	01/01/21	HAP	03/07/20	85	85
Lincoln Center	Chisholm	7.250	709,393	-	406,554	03/01/12	HAP	12/15/10	41	41
Maple Ridge	Alexandria	6.500	901,031	-	80,616	01/01/21	HAP	07/31/18	40	40
Maryland House	Minneapolis	7.250	2,385,486	-	718,292	01/01/22	HAP	01/08/21	79	79
Matthews Park	Minneapolis	7.500	424,067	-	148,188	12/01/17	HAP	09/28/16	24	24
Meridian	Duluth	6.500	737,424	-	300,397	05/01/19	HAP	07/20/18	39	39
Milaca Park	Milaca	7.250	2,056,947	-	125,082	03/01/22	HAP	11/14/20	71	71
Mill Pond View	Pelican Rapids	7.250	1,539,270	-	1,160,270	05/01/12	HAP	09/20/19	66	66
Millie Beneke	Glencoe	6.500	617,051	-	164,695	08/01/19	HAP	08/07/18	41	41
Mower County	LeRoy	6.500	605,595	-	922,743	10/01/20	HAP	06/30/19	30	30
Munger Terrace	Duluth	7.250	1,194,243	-	231,463	08/01/20	HAP	01/24/19	45	45
Nevada Square	Benson	7.250	988,524	-	407,041	04/01/20	HAP	03/30/19	40	40
North Mora	Mora	7.250	859,535	-	47,503	05/01/21	HAP	12/06/17	35	35
North Star	Roseau	7.250	1,052,180	-	455,025	02/01/20	HAP	05/14/19	51	51
Northgate Woods	Blaine	7.250	2,093,182	-	430,191	07/01/21	HAP	08/29/20	75	75
Northwood Commons	Baudette	6.500	469,852	-	320,947	05/01/19	HAP	12/19/18	32	32
Oak Park Village	St. Louis Park	6.500	2,186,092	-	1,028,508	04/01/20	HAP	11/29/18	100	100
Oakwood Homes	Karlstad	7.250	279,707	-	21,481	12/01/21	HAP	03/12/20	45	45
Oakwood Homes-Deferred	Karlstad	0.000	361,479	-	See above	See above	HAP	03/12/20	See above	See above
Okabena	Worthington	7.250	1,075,421	-	431,938	07/01/19	HAP	11/30/18	60	60
Otterkill Garden	Bagley	7.500	447,758	-	135,132	02/01/18	HAP	05/01/17	30	30
Park Manor	Detroit Lakes	7.250	2,079,695	-	1,723,767	08/01/20	HAP	05/18/19	97	97
Park View Terrace	Moorhead	7.500	1,848,058	-	1,265,293	12/01/17	HAP	05/15/17	121	121
Pine Manor	Ely	7.250	499,818	-	131,212	06/01/11	HAP	07/27/10	30	30
Pine Ridge	Grand Rapids	5.750	1,425,593	-	825,275	11/01/18	HAP	02/15/18	60	100
Prairie Estates	Inver Grove Heights	7.250	1,176,334	-	395,763	02/01/22	HAP	11/21/20	40	40
Princeton	Princeton	7.250	968,179	-	545,219	04/01/20	HAP	04/12/19	48	48
Red Fox Run	Richfield	7.250	175,898	-	98,147	03/01/21	HAP	05/19/20	5	5
Red Pine Estates	Bemidji	7.250	1,342,355	-	656,041	08/01/11	HAP	08/29/10	86	86
River Bend	Fergus Falls	7.250	1,800,801	-	1,313,245	08/01/12	HAP	10/31/10	100	100
Riverside Manor	Dawson	7.250	590,203	-	225,626	09/01/20	HAP	11/30/19	24	24
Riverside Terrace	Thief River Falls	7.250	881,292	-	521,695	05/01/11	HAP	05/02/10	66	66
Riverview Apts.	Appleton	6.500	563,538	-	463,640	12/01/19	HAP	10/13/18	37	37
Riverview Manor	Floodwood	7.250	683,058	-	370,265	01/01/20	HAP	04/13/19	35	35
Rosemount Greens	Rosemount	7.250	749,417	-	17,156	10/01/21	FHA	(A)	28	28
Roseville Seniors	Roseville	6.500	2,104,262	-	560,026	02/01/19	HAP	09/21/18	127	127
Sahlman East	Cloquet	7.250	626,579	-	173,694	05/01/11	HAP	07/01/10	36	36
Shields Plaza	North Branch	6.500	779,919	-	191,012	04/01/19	HAP	04/12/18	49	49
Six Acres	Coon Rapids	7.250	376,888	-	32,837	07/01/20	HAP	12/08/18	14	14
South Park Manor	Dodge Center	7.250	1,073,297	-	38,004	05/01/22	HAP	09/12/20	37	37
Southview	Hibbing	6.750	2,078,410	-	333,534	06/01/18	HAP	08/01/17	43	145
Spruce Place	Farmington	6.500	1,016,730	-	1,307,140	09/01/19	HAP	10/27/18	60	61
Sunrise Estates	Jackson	7.250	664,333	-	80,651	12/01/11	HAP	10/30/10	40	40

Development Name	Location	Mortgage Loan Interest Rate	Outstanding Mortgage Loan Balance As Of 6/30/04	Undisbursed Mortgage Amount	Development Reserves (1) As Of 6/30/04	Mortgage Note Maturity	Program Type	Subsidy Expiration	No. of Sub-sidized Units	Total No. of Units
Sunrise Meadow	St. Peter	6.500	1,382,230	-	244,513	05/01/19	HAP	06/01/18	63	63
Sunset Court	Red Lake Falls	6.500	427,358	-	694,168	04/01/19	HAP	07/31/18	24	24
Todd 27	Long Prairie	7.250	943,082	-	96,426	04/01/21	HAP	06/25/20	44	44
Town Square	East Grand Forks	7.250	2,096,242	-	587,332	12/01/21	HAP	10/08/19	81	81
Valley View Manor	Ada	6.500	559,439	-	774,780	04/01/19	HAP	06/28/18	40	40
Valleyview Common	Mahnomen	6.500	464,342	-	773,912	04/01/19	HAP	10/13/18	32	32
Victoria Place	Roseville	7.550	1,937,330	-	226,276	12/01/17	MR	N/A	-	58
Village TH	Chaska	7.250	789,057	-	220,227	02/01/22	HAP	02/01/21	28	28
Warroad	Warroad	7.250	881,578	-	46,955	12/01/21	HAP	12/17/20	30	30
Washington Square	White Bear Lake	7.250	1,733,059	-	584,456	03/01/21	HAP	05/24/19	81	81
West Falls Estates	International Falls	7.250	1,412,208	-	471,587	04/01/12	HAP	01/08/11	80	80
Westgate Apts-Gaylord	Gaylord	6.500	427,610	-	128,912	03/01/19	HAP	07/01/18	31	31
Westgate Apts- Hibbing	Hibbing	7.500	1,374,048	-	212,793	08/01/13	HAP	11/24/16	30	100
Westgate Apts-Balloon	Hibbing	0.000	881,754	-	See above	08/01/13	HAP	11/24/16	See above	See above
Whispering Pines	Caledonia	6.500	622,095	-	145,722	09/01/19	HAP	12/14/18	37	37
Whittier Coop	Minneapolis	7.250	847,563	-	65,464	10/01/18	FHA	(A)	45	45
Women's Advocates	St. Paul	7.250	129,075	-	119,069	09/01/12	HAP	07/02/21	12	15
Woodcrest Manor	Mora	7.250	920,029	-	173,466	08/01/21	HAP	03/07/20	42	42
Woodland Garden	Duluth	7.250	1,266,768	-	384,860	01/01/20	HAP	06/15/19	60	60
Woodmount	Cottage Grove	7.250	1,389,399	-	524,644	11/01/21	FHA	(A)	50	50
Wyndmark	Rochester	7.550	1,566,084	-	347,187	03/01/17	MR	N/A	-	62
Yorkdale	Edina	7.250	2,174,017	-	136,604	05/01/20	HAP	01/08/19	90	90
Yorkdale II	Edina	9.000	3,790,252	-	See above	05/01/20	HAP	See above	See above	See above
			$ 107,780,748	$ -	$ 37,973,926				4,571	5,186

Footnotes

(1) Amounts listed under the heading "reserves" are pledged by the project owner under the project regulatory agreement. The reserves can be applied for project purposes under the regulatory agreement, and are paid to the owner when the mortgage loan is prepaid. The Reserves are not pledged as security under the Bond Resolution. The taxes and insurance reserves are excluded.

(2) Initial 20 year Section 8 contract expired, contracts renewed in one to five year increments.

(3) Refinancings of existing 236 projects: The original interest reduction payments have not been increased to cover the additional debt service and are for less than the maximum term of the mortgage.

(4) Housing Development Series 91A bonds were refunded and the remaining loans were transferred to RH 2002A. The savings from this refunding (FAF, i.e. Finance Adjustment Factor) will go to developments who are willing to extend their commitment to Section 8. If these developments agree to extend their obligation to remain as Section 8 subsidized housing for an additional period, they will receive their pro-rata share of savings to be used for project improvements and operating assistance. The developments that do not wish to exend their commitment to Section 8 subsidized housing will forego receipt of any savings. The Agency will use those savings as needed for other multifamily developments.

(A) Initial 20 year Section 8 contract expired, contracts renewed in one to five year increments.

Program Type Legend

236 = Section 236 Interest Reduction Payment Program
ARM = Apartment Renovation Mortgage Program
DD = Group Homes For The Developmentally Disabled
FHA = FHA Insured
HAP = Section 8 Housing Assistance Payment Program (Uninsured Developments)
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MR = Market Rate Loan Program

APPENDIX A2

DESCRIPTION OF MORTGAGE LOANS AND DEVELOPMENTS PREVIOUSLY FINANCED BY OTHER RENTAL HOUSING BONDS AND PLEDGED AS ADDITIONAL SECURITY UNDER THE RENTAL HOUSING BOND RESOLUTION

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DESCRIPTION OF MORTGAGE LOANS AND DEVELOPMENTS PREVIOUSLY FINANCED BY RENTAL HOUSING BONDS AND PLEDGED AS ADDITIONAL SECURITY UNDER THE RENTAL HOUSING BOND RESOLUTION

MORTGAGE LOANS AND DEVELOPMENTS PREVIOUSLY FINANCED BY RENTAL HOUSING BONDS

Development Name	Location	Mortgage Loan Interest Rate	Outstanding Mortgage Loan Balance As Of 6/30/04	Undisbursed Mortgage Amount	Development Reserves (1) As Of 6/30/04	Mortgage Note Maturity	Program Type	Subsidy Expiration	No. of Subsidized Units	Total No. of Units
Abbey Field (4)	St. Francis	8.150	$ 856,221	$ -	$ 379,459	08/01/13	HAP	(A)	42	42
Applewood West	Duluth	7.050	819,625	-	332,855	02/01/12	HAP	05/06/11	42	42
Birmingham	St. Paul	7.050	481,673	-	59,678	11/01/12	HAP	10/30/11	21	21
Bossen Park	Minneapolis	6.680	2,655,900	-	200,392	02/01/30	LMIR/HRS	N/A	-	110
Camber Hill (4)	So. St. Paul	8.150	1,046,577	-	110,323	09/01/13	HAP	(A)	44	44
Cedar Hills (4)	Minnetonka	8.150	744,610	-	164,287	10/01/13	HAP	12/29/12	30	30
Cedar Terrace	St. Cloud	7.050	515,642	-	41,186	05/01/12	HAP	06/24/11	24	24
Cedar Villas	Eagan	6.000	10,717,753	1,297,247	454,808	12/01/44	LMIR/HRS	N/A	21	104
Cliff Hill	Burnsville	7.050	752,093	-	323,441	09/01/12	HAP	07/30/11	32	32
College Drive (4)	Brainerd	8.150	556,587	-	401,299	10/01/13	HAP	11/29/12	24	24
Colony-236 (3)	North Mankato	8.500	895,917	-	215,431	06/01/12	LMIR/HRS/236	06/01/12	120	120
Colony-Regular (3)	North Mankato	6.300	1,533,676	-	See above	05/01/30	LMIR/HRS	See above	See above	See above
Crossroads of New Brighton	New Brighton	5.870	8,222,566	-	450,185	07/01/28	HAP	08/30/19	172	172
Dewey Place/Pines	Foley	7.050	673,658	-	192,711	08/01/12	HAP	06/02/11	36	36
Eighteenth & Clinton	Minneapolis	7.050	154,982	-	20,910	07/01/12	HAP	08/28/11	8	8
Elliot Park (4)	Minneapolis	8.150	529,151	-	59,944	12/01/13	HAP	01/31/13	30	30
Endion School-Rehab (4)	Duluth	8.150	576,073	-	58,645	11/01/13	HAP	11/17/12	26	26
Etna Woods	St. Paul	7.050	428,696	-	17,066	02/01/12	HAP	07/01/11	20	20
Evergreen East	St. Paul	7.550	2,324,261	-	514,723	03/01/28	LMIR/HRS	N/A	-	113
Fairview Apts-236 (3)	St. Peter	7.000	386,584	-	53,208	06/01/14	LMIR/HRS/236	06/01/14	48	48
Fairview Apts-Regular (3)	St. Peter	7.550	477,359	-	See above	05/01/30	LMIR/HRS	See above	See above	See above
Fontaine Towers (4)	Rochester	8.150	4,398,545	-	636,050	12/01/15	HAP	06/30/13	151	151
Franklin Ln Apts-223 (3)	Anoka	7.170	934,914	-	301,652	05/01/27	LMIR/FHA/236	05/01/15	66	66
Franklin Ln Apts-241 (3)	Anoka	7.350	495,445	-	See above	05/01/15	LMIR/FHA	See above	See above	See above
Franklin Ln Apts-Regular (3)	Anoka	7.350	657,405	-	See above	05/01/27	LMIR	See above	See above	See above
Galway Place	Coon Rapids	7.050	769,553	-	280,314	01/01/12	HAP	05/28/11	36	36
Geneva Village Apts	Oakdale	7.210	4,158,047	-	281,808	01/01/28	LMIR	N/A	-	175
Glenwood Manor	Glenwood	7.050	691,990	-	336,999	01/01/12	HAP	05/27/11	36	36
Heritage House (4)	St. Paul	8.150	1,522,579	-	174,488	11/01/13	HAP	04/27/13	58	58
Hickory Ridge (4)	Maple Grove	8.150	872,211	-	65,728	03/01/15	HAP	01/28/13	32	32
Hillside Terrace- Long Lake	Long Lake	7.250	1,429,315	519,557	264,890	05/01/12	LMIR/HRS	12/02/10	44	44
Hillside Terrace-L.L. Bridge	Long Lake	1.800	99,808	-	See above	07/01/05	LMIR/HRS	12/02/10	See above	See above
Hillside Terrace-Monticello	Monticello	7.050	765,377	-	320,392	05/01/12	HAP	06/30/11	36	36
Holmes-Greenway (4)	Minneapolis	8.150	1,560,850	-	133,132	10/01/13	HAP	(A)	50	50
Homestead Apts-236 (3)	Mankato	7.000	1,039,648	-	152,832	06/01/14	LMIR/HRS/236	06/01/14	120	120
Homestead Apts-Regular (3)	Mankato	7.550	1,349,493	-	See above	05/01/30	LMIR/HRS	See above	See above	See above
Hopkins Village 223 (3)	Hopkins	7.120	2,393,211	-	476,031	09/01/24	LMIR/FHA/236	09/01/12	161	161
Hopkins Village 241 (3)	Hopkins	5.200	958,830	-	See above	09/01/24	LMIR/FHA	See above	See above	See above
Hopkins Village Regular (3)	Hopkins	5.200	387,757	-	See above	09/01/24	LMIR	See above	See above	See above
Innsbruck (4)	Rochester	8.150	996,148	-	85,353	10/01/13	HAP	10/15/12	40	40
Kentucky Lane Apts	Crystal	7.290	2,826,224	-	196,669	08/01/31	LMIR/HRS	N/A	-	67
Kimberly Meadows	Plymouth	7.050	917,016	-	323,069	10/01/12	HAP	08/31/11	39	39
Kingsway (4)	LeSueur	8.150	546,892	-	84,341	10/01/13	HAP	10/26/12	24	24
Lanesboro Heights (4)	Elk River	8.150	703,415	-	284,097	10/01/13	HAP	09/28/12	30	30
Loring Towers	Minneapolis	6.140	8,622,725		513,972	04/01/35	LMIR/HRS/236	(A)	186	230
Madison Apt (4)	Minneapolis	8.150	1,060,488	-	110,603	05/01/14	HAP	02/15/13	51	51
Manitou Ridge (3)	White Bear Lake	6.630	4,453,886	-	205,744	03/01/33	LMIR/HRS/236	10/01/14	118	118
Maple Grove Estates (4)	Hermantown	8.150	1,185,568	-	416,040	11/01/13	HAP	09/16/12	48	48
Maple Knoll	Maplewood	7.050	1,392,231	-	214,082	01/01/13	HAP	10/15/11	57	57
Marshall Ave	St. Paul	7.050	240,976	-	48,972	08/01/12	HAP	10/08/11	12	12
Medley Park (4)	Golden Valley	8.150	746,382	-	166,956	03/01/14	HAP	12/01/12	30	30
Millpond Apts	New Prague	7.050	973,147	-	353,415	09/01/20	HAP	08/14/11	44	44
Mission Oaks (4)	Plymouth	8.150	647,513	-	265,016	02/01/14	HAP	05/27/13	26	26
Morgan Park (4)	Duluth	8.150	662,148	-	90,275	09/01/13	HAP	08/31/12	24	24
Oak Haven (4)	Minneapolis	8.150	248,481	-	60,092	02/01/13	HAP	12/21/12	10	10
Oakland Square	Minneapolis	7.050	632,188	-	6,539	07/01/16	HAP	11/30/14	31	31
Park Haven 223 (3)	Brooklyn Park	8.020	2,103,878	-	268,757	01/01/25	LMIR/FHA/236	01/01/13	174	174
Park Haven 241 (3)	Brooklyn Park	4.300	659,088	-	See above	01/01/13	LMIR/FHA	See above	See above	See above
Pine Ave TH (4)	Staples	8.150	457,595	-	87,929	11/01/13	HAP	10/15/12	20	20
Ripple River	Aitkin	7.050	708,110	-	53,670	07/01/13	HAP	11/11/11	32	32
Rock Manor (4)	Luverne	8.150	509,503	-	7,794	02/01/14	HAP	10/27/12	24	24
Rosemount Plaza (4)	Rosemount	8.150	1,052,139	-	295,558	12/01/13	HAP	01/21/13	39	39
Rush Riverview (4)	Rush City	8.150	555,951	-	41,780	10/01/13	HAP	11/30/12	24	24
Rustic Creek	Two Harbors	7.050	1,042,087	-	117,416	02/01/13	HAP	12/07/11	40	40
Sunrise Manor	Sleepy Eye	7.050	665,173	-	99,127	05/01/12	HAP	10/01/11	32	32
Vadnais Highlands	Vadnais Heights	6.600	1,800,889	-	128,080	03/01/34	LMIR/HRS/HAP	(A)	35	35
Walnut Place	Rockford	7.050	676,752	-	173,856	04/01/12	HAP	07/21/11	30	30
Westfalls	Redwood Falls	7.050	861,788	-	355,955	11/01/12	HAP	10/01/11	40	40
Westgate Apts-New Prague	New Prague	7.050	912,684	-	213,961	12/01/17	HAP	07/15/11	37	37
Whittier TH (4)	Minneapolis	8.150	267,421	-	59,007	10/01/13	HAP	09/30/12	12	12
Wilkins TH (4)	St. Paul	8.150	504,475	-	137,475	01/01/13	HAP	12/02/12	23	23
Wimbledon Green (4)	St. Cloud	8.150	1,167,312	-	412,459	01/01/15	HAP	02/25/13	45	45
Women's Advocates	St. Paul	7.050	49,288	-	See RH 95D	09/01/12	HAP	07/02/21	See RH 95D	See RH 95D
Woodland Park Apts (3)	St. Cloud	7.290	1,869,294	-	197,069	12/01/31	LMIR/HRS/236	11/01/15	86	86
Subtotal			$ 102,553,437	$ 1,816,804	$ 13,549,995				2,993	3,585

MORTGAGE LOANS AND DEVELOPMENTS PLEDGED AS ADDITIONAL SECURITY UNDER THE RENTAL HOUSING BOND RESOLUTION

Development Name	Location	Mortgage Loan Interest Rate	Outstanding Mortgage Loan Balance As Of 6/30/04	Undisbursed Mortgage Amount	Development Reserves (1) As Of 6/30/04	Mortgage Note Maturity	Program Type	Subsidy Expiration	No. of Sub-sidized Units	Total No. of Units
1025 York Ave	St. Paul	8.000	$ 116,493	$ -	$ 11,314	03/01/13	ARM	N/A	-	17
116,118,120 So Holmes	Shakopee	9.500	112,504	-	6,396	03/01/19	ARM	N/A	-	7
1621-1633 Commerce	North Mankato	8.500	732,157	-	49,510	08/01/20	ARM	N/A	-	48
2100 Bloomington	Minneapolis	6.750	1,117,903	-	371,870	12/01/16	236	12/01/16	90	90
2101 Blaisdell	Minneapolis	9.500	389,761	-	5,659	04/01/20	ARM	N/A	-	18
380-400 Larpenteur	St. Paul	9.750	368,256	-	134,956	11/01/21	ARM	N/A	-	34
399-401 Ashland Ave	St. Paul	9.500	57,889	-	15,785	02/01/20	ARM	N/A	-	17
500 So. 2nd St.	Mankato	8.500	450,675	-	39,949	07/01/20	ARM	N/A	-	38
700-716 Selby Ave	St. Paul	9.500	320,172	-	37,710	10/01/20	ARM	N/A	-	38
830 13th St So	St. Cloud	8.500	967,011	-	2,653	02/01/21	ARM	N/A	-	48
924 Washington	Bemidji	9.500	53,967	-	4,065	08/01/19	ARM	N/A	-	8
Apollo Apts	Hutchinson	3.500	22,193	-	49,979	12/01/11	LMIR	N/A	-	10
Carriage House-Moorhead	Moorhead	6.500	882,953	-	29,688	07/01/22	MR	N/A	-	36
Chester Terrace	Duluth	7.500	537,228	-	67,172	02/01/18	ARM	N/A	-	43
Clifton	Shakopee	7.250	1,596,634	-	324,302	03/01/21	HAP	11/19/19	56	56
Cottage Grove	Cottage Grove	7.500	734,477	-	128,112	01/01/22	MR	N/A	-	24
Delton Manor	Bemidji	6.750	599,152	-	334,837	12/01/16	236	12/01/16	60	60
Dover Hill	Golden Valley	6.750	3,589,719	-	1,108,112	12/01/16	236	12/01/16	196	234
Highland On The Park	St. Paul	7.500	3,256,583	-	498,646	11/01/23	MR	N/A	-	126
Hope Residence GH	Waterville	8.000	90,212	-	84,644	08/01/12	DD	N/A	10	10
Hope Residence II GH	Waterville	8.000	14,751	-	See above	08/01/12	DD	See above	See above	See above
Jefferson TH (Five Gables)	Minneapolis	7.500	18,121	-	8,232	10/01/05	MR	N/A	-	5
Maple Plain Apts	Maple Plain	3.500	849,695	-	346,081	02/01/14	LMIR	N/A	-	47
Marshall County GH	Argyle	6.500	14,273	-	2,818	01/01/13	DD	N/A	10	10
Mesaba Villas	Duluth	6.750	385,553	-	69,822	12/01/16	236	12/01/16	27	27
Milwaukee Ave	Minneapolis	6.750	169,252	-	78,022	12/01/16	236	12/01/16	12	12
Newport Ponds	Newport	3.500	776,247	-	489,316	03/01/13	LMIR/HRS	N/A	-	51
North Ridge	North Mankato	7.500	842,203	-	60,718	07/01/22	MR	N/A	-	30
Northwood	Glencoe	6.750	436,107	-	65,329	12/01/16	236	12/01/16	31	39
Outreach-Six Acres GH	Winsted	7.650	203,888	-	53,049	01/01/27	DD	N/A	6	6
Pacific Ave Apts	Argyle	7.500	78,536	-	24,492	01/01/17	MR	N/A	-	11
Park South Apts	Alexandria	3.500	419,516	-	423,275	01/01/13	LMIR	N/A	-	48
Passages	Minneapolis	7.500	327,022	-	26,737	09/01/21	MR	N/A	-	17
Phalen Shores I	St. Paul	6.000	1,330,653	-	173,524	06/01/17	MR	N/A	-	53
Phalen Shores II	St. Paul	6.750	763,800	-	See above	02/01/20	MR	See above	See above	See above
Phalen Shores III	St. Paul	7.500	93,575	-	See above	07/01/19	MR	See above	See above	See above
Queens Lane Apts	Anoka	3.500	450,814	-	293,870	01/01/12	LMIR	N/A	-	44
Riverview Manor I GH	Wanamingo	7.750	93,447	-	44,165	10/01/13	DD	N/A	12	12
Shadyway GH	Wayzata	6.500	50,285	-	71,176	05/01/13	DD	N/A	6	6
Slater Square - I	Minneapolis	7.459	1,373,078	-	278,506	11/01/18	MR	N/A	-	163
Slater Square - II	Minneapolis	7.500	862,938	-	See above	11/01/18	MR	See above	See above	See above
Theatre Heights	Columbia Heights	3.500	82,474	-	64,465	10/01/11	LMIR	N/A	-	22
Three Links	Northfield	6.750	733,551	-	240,353	12/01/16	236	12/01/16	32	80
Viking Terrace	Worthington	6.750	674,487	-	3,306	12/01/16	236	12/01/16	40	60
Virginia Rotary	Virginia	7.250	295,543	-	89,834	11/01/15	236/FHA	11/01/15	31	31
Waterford	Oakdale	7.094	730,790	-	21,968	10/01/13	HAP/FHA	(A)	31	31
Webber Apts	Minneapolis	3.500	446,172	-	138,480	02/01/13	LMIR/HRS	N/A	-	31
Subtotal			$ 28,512,710	$ -	$ 6,372,897				650	1,798
Grand Total			$ 131,066,147	$ 1,816,804	$ 19,922,892				3,643	5,383

Footnotes and Program Type Legend are on page A-3 of this Appendix A.

Footnotes

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APPENDIX B

FINANCIAL STATEMENTS

MINNESOTA HOUSING FINANCE AGENCY
Annual Financial Report as of and for the year ended June 30, 2004

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MINNESOTA HOUSING FINANCE AGENCY
Commissioner's Report

As the 2003 Financial Report was prepared I had just assumed the duties of Commissioner. In my report I stated that "as a result of the work and commitment of my predecessors, the Agency's board, the senior leadership and staff of the Agency, and the state of Minnesota's continued commitment to housing issues, I am confident that the Agency will thrive in this new Administration and continue to deliver on its mission for the state of Minnesota." My confidence was well founded.

The Agency experienced another year of solid financial performance, we continued to deliver housing programs to meet the needs of low- and moderate-income Minnesotans, and we have adopted and are implementing an ambitious strategic plan that will allow Minnesota to continue to be a national leader in meeting the housing needs of its low- and moderate-income citizens.

Financially, the Agency continued to increase the net assets of its bond funds and General Reserve, in spite of the challenges of an historically low interest rate environment and accelerated loan prepayments. Net assets of both the State and Federal Appropriated funds decreased as expected due to spending down appropriations accumulated from prior years.

There was continued strong demand for the Agency's programs. In the last program year (October 1, 2002 to September 30, 2003), the Agency continued its efforts to provide decent, safe, and affordable housing by serving over 57,000 households; 51% of the households served, excluding those living in Section 8 project-based housing, had annual incomes under $20,000. The Agency provided more than $465 million of housing assistance in three main areas: $162 million for homeownership programs, primarily in the form of first mortgages and entry cost assistance, $45 million for home improvement programs, and $258 million for rental housing programs, including financing of new construction, rehabilitation, preservation of federal assistance, and rental assistance. The increase over the previous year of assistance provided for rental housing programs is largely due to two factors: a doubling of the amount of first mortgage financing provided by the Agency and an increase in the amount of the housing assistance payments made for properties in the Agency's portfolio as well as the HUD-financed portfolio. The decrease in housing assistance for homeownership programs over the previous year is attributable primarily to an extremely low interest rate environment and low purchase price limits, which were subsequently raised.

As of the end of the last fiscal year, the Agency oversaw a portfolio of more than 22,000 first mortgage and deferred loans for homeownership, 15,000 second mortgage loans for home improvement and 1,200 first mortgage and deferred loans for rental housing as well as administering the federal tax credit program.

In February 2004 the Agency finalized a strategic plan that is intended to guide our work through 2007. The plan was the result of input from Agency stakeholders throughout the state, Governor Pawlenty, the Agency Board, senior leadership and staff. The plan was also informed by analyses of various housing and community development data and trends, including the "Next Decade of Housing in Minnesota" prepared by BBC Research & Consulting. Grounded in the values of stewardship and the relentless pursuit of results, the plan sets fourth five strategic goals:

- End long-term homelessness;
- Increase minority homeownership;
- Preserve strategically the existing affordable housing stock;
- Increase housing choices for low- and moderate-income workers; and
- Establish the MHFA as a housing partner of choice.

MINNESOTA HOUSING FINANCE AGENCY
Commissioner's Report (continued)

We are developing more specific business or implementation plans for each goal. A business plan to end long-term homelessness was completed in March 2004, and a business plan to increase homeownership in Minnesota's emerging markets will be forthcoming in March 2005. In addition, specific initiatives, such as implementation of the Agency's information technology plan, are being pursued to maintain and enhance the Agency's organizational infrastructure and core housing programs. In short, we have our plan, are working the plan, and will be accountable for results.

As we work our plan, we are mindful of the continued challenges to produce and preserve affordable housing including federal actions on the Section 8 Housing Choice Voucher Program, the long-term viability of the mortgage revenue bond program under the current tax code, and continued federal and state fiscal uncertainty.

The Agency will continue to provide leadership at the state and national level to confront these and similar challenges.

We begin the next fiscal year with a compelling mission, a sound plan, and with the financial and organizational capacity to execute. I look forward to reporting to you on another successful year in August of 2005.

Timothy E. Marx, Commissioner
Minnesota Housing Finance Agency
August 23, 2004

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, Rental Housing, Residential Housing Finance, Single Family, State Appropriated, and Federal Appropriated) of the Minnesota Housing Finance Agency (the "Agency"), a component of the State of Minnesota, as of and for the year ended June 30, 2004, 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 the 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, Rental Housing, Residential Housing Finance, Single Family, State Appropriated, and Federal Appropriated) of the Agency as of June 30, 2004, 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.

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. This supplementary information is the responsibility of the Agency's management. 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. This supplementary information is the responsibility of the Agency's management. 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 23, 2004

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

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

Introduction

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

MHFA is authorized to issue bonds and other obligations to fulfill its corporate purposes up to a total outstanding amount of $3.0 billion. The bonds and other obligations by law are not a debt of the State of Minnesota or any political subdivision thereof.

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

The members of MHFA (hereinafter referred to as the Board) consist of six members appointed at large by the Governor and one ex-officio member (the State Auditor).

Discussion of Financial Statements

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

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

The basic financial statements also include comparative totals as of and for the year ended June 30, 2003. Although not required, these comparative totals are intended to facilitate an enhanced understanding of MHFA's financial position and results of operations for the current fiscal year in comparison to the prior fiscal year.

Discussion of Individual Funds

General Reserve

The purposes of General Reserve are to maintain sufficient cash for MHFA operations, to hold escrowed funds and to maintain the Housing Endowment Fund (also referred to as Pool 1). On the Statement of Revenues and Expenses for General Reserve, only the costs of administering MHFA programs are captured. The fees earned are generally related to the administration of the federal housing tax credit program and contract administration of the Section 8 program for developments not financed by MHFA.

Rental Housing

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

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

All of MHFA's new bond-financed multifamily loans are financed in Rental Housing. A portion of MHFA's Alternative Loan Fund is also available to finance multifamily developments.

Residential Housing Finance

Included within Residential Housing Finance are the bonds issued and outstanding under the resolution, the Bond Restricted Home Improvement, Homeownership, and Multifamily Endowment Funds, and the Restricted by Covenant Alternative Loan Fund consisting of the Housing Investment Fund (also referred to as Pool 2) and Housing Affordability Fund (also referred to as Pool 3).

Bonds issued to date were for the purpose of funding purchases of single family first mortgage and home improvement subordinated mortgage loans. The majority of the single family loans held under these bond issues were FHA insured, or VA or RD guaranteed. This bond resolution is the principal source of financing for bond-financed homeownership programs. MHFA may also issue bonds for its home improvement loan program in this fund although no bonds were issued to support home improvement lending during fiscal year 2004.

The Home Improvement Endowment Fund continues to be the principal source of financing for MHFA's home improvement loan programs. Loan repayments were utilized to finance new loan activity for home improvement loan programs during fiscal year 2004.

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

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

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

The Housing Affordability Fund includes a 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, multifamily first and subordinated mortgage loans, including zero-percent deferred loans, and other below-market rate loans with higher than ordinary risk factors. It may also be used to advance funds to retire high rate debt and to warehouse loans.

Discussion of Individual Funds (continued)

Single Family

This fund was historically the principal source of financing for MHFA's bond-financed homeownership programs. In fiscal year 2002, MHFA began to utilize the Residential Housing Finance Fund as its principal source of financing for these programs, because of the increased flexibility afforded by that bond resolution. Certain Single Family funds in excess of bond resolution requirements are budgeted for and used for bond sale contributions in connection with bonds issued under the Residential Housing Finance Bonds resolution.

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

In addition to the uses described above, funds in excess of bond resolution requirements for each bond resolution described above are budgeted for and used to redeem bonds and to fund housing programs and Agency operations.

State and Federal Appropriated Funds

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

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

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

General Overview

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

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

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

Assets and revenues of the bond funds are restricted to uses specifically described in their respective bond resolutions and are pledged for the primary benefit of the respective bondholders and creditors. General Reserve is created under the MHFA bond resolutions as part of the pledge of the general obligation of MHFA. MHFA covenants in the bond resolutions that it will use the 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

General Overview (continued)

bonds and notes and of loans made from the proceeds thereof, and shall accumulate and maintain therein such a balance of funds and investments as will be sufficient for the purpose.

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

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

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

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[1]		Change	Combined General Reserve and Bond Funds	
		2004	2003	$	2004	2003
Assets	Cash and Investments	1,335,512	1,297,550	37,962	1,249,343	1,173,305
	Loans receivable, Net	1,413,897	1,478,002	(64,105)	1,384,804	1,450,478
	Interest Receivable	11,334	13,543	(2,209)	10,820	12,285
	Total Assets	2,767,995	2,793,810	(25,815)	2,650,746	2,640,039
Liabilities	Bonds Payable	1,844,589	1,846,679	(2,090)	1,844,589	1,846,679
	Interest Payable	36,283	43,464	(7,181)	36,283	43,464
	Funds Held for Others	88,163	88,116	47	86,510	86,344
	Total Liabilities	1,986,907	1,993,630	(6,723)	1,983,768	1,991,580
Net Assets	Restricted by Bond Resolution	387,747	382,253	5,494	387,747	382,253
	Restricted by Covenant	277,457	265,473	11,984	277,457	265,473
	Restricted by Law	114,110	151,721	(37,611)	—	—
	Total Net Assets	781,088	800,180	(19,092)	666,978	648,459

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

		Agency-wide Total[1]		Change	Combined General Reserve and Bond Funds	
		2004	2003	$	2004	2003
Revenues	Interest Earned	134,431	150,367	(15,936)	132,544	145,010
	Appropriations Received	189,913	198,516	(8,603)	—	—
	Fees and Reimbursements	10,344	10,420	(76)	23,232	23,281
	Total Revenues	338,726	376,348	(37,622)	146,754	173,685
Expenses	Interest Expense	89,514	101,023	(11,509)	89,514	101,023
	Appropriations Disbursed	180,098	170,693	9,405	—	—
	Fees and Reimbursements	5,339	5,981	(642)	14,834	15,122
	Payroll, Gen. & Admin.	20,310	21,471	(1,161)	19,165	19,667
	Loan Loss/Value Adjust's	48,894	52,984	(4,090)	4,722	1,775
	Total Expenses	357,818	365,823	(8,005)	128,235	137,587
	Revenues over Expenses	(19,092)	10,525	(29,617)	18,519	36,098
	Beginning Net Assets	800,180	789,655	10,525	648,459	612,361
	Ending Net Assets	781,088	800,180	(19,092)	666,978	648,459

(1) Agency-wide totals include interfund amounts.

Change $	Combined State and Federal Appropriations Funds 2004	2003	Change $
76,038	86,169	124,245	(38,076)
(65,674)	29,093	27,524	1,569
(1,465)	514	1,258	(744)
10,707	117,249	153,771	(36,522)
(2,090)	—	—	—
(7,181)	—	—	—
166	1,653	1,772	(119)
(7,812)	3,139	2,050	1,089
5,494	—	—	—
11,984	—	—	—
—	114,110	151,721	(37,611)
18,519	114,110	151,721	(37,611)

Change $	Combined State and Federal Appropriations Funds 2004	2003	Change $
(12,466)	1,887	5,357	(3,470)
—	189,913	198,516	(8,603)
(49)	775	810	(35)
(26,931)	191,972	202,663	(10,691)
(11,509)	—	—	—
—	180,098	170,693	9,405
(288)	4,168	4,530	(362)
(502)	1,145	1,804	(659)
2,947	44,172	51,209	(7,037)
(9,352)	229,583	228,236	1,347
(17,579)	(37,611)	(25,573)	(12,038)
36,098	151,721	177,294	(25,573)
18,519	114,110	151,721	(37,611)

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 2004 Financial Report.

General Reserve and Bond Funds — Statement of Net Assets

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

Loans receivable, net is the largest single category of bond fund assets; they are limited to housing-related lending that supports a public mission objective. Loans receivable, net decreased 5% to $1,385 million at June 30, 2004 as a result of prepayments and repayments 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 liquidity needs. The combined investments, cash, and cash equivalents increased 6% to $1,249 million at June 30, 2004 due to proceeds of loan prepayments on hand and higher levels of short-term debt outstanding at fiscal year end.

Interest receivable on loans and investments is a function of the timing of interest payments and the general level of interest rates. Combined loan and investment interest receivable decreased 12% to $10.820 million at June 30, 2004 generally as a result of historically low interest rates and declining loans outstanding.

Bonds payable, net is the largest single category of liabilities, resulting from debt issued to fund housing-related lending that supports MHFA's mission. Bonds payable decreased negligibly to $1,845 million at June 30, 2004 resulting from early redemptions made possible by accelerated loan prepayments, optional redemptions from Agency resources, scheduled redemptions and bond maturities, which marginally exceeded new debt issuance.

The companion category of interest payable decreased 17% to $36.283 million at June 30, 2004 as a result of reduced interest rates and fewer average bonds outstanding.

There is no debt issued in General Reserve. General Reserve does recognize a significant liability for funds held for others. These funds are routinely collected and held in escrow on behalf of multifamily borrowers pursuant to the loan documents and are used for future periodic payments of real property taxes, casualty insurance premiums, and certain operating expenditures. Funds held for others in General Reserve increased negligibly to $86.510 million at June 30, 2004 since deposits were approximately equal to payments made from escrows.

Accounts payable and other liabilities increased 10% to $15.152 million at June 30, 2004 primarily as a result of higher levels of general and administrative expenses payable. The largest component of accounts payable continues to be arbitrage liability on tax-exempt bonds pursuant to federal law, which is payable to the United States Treasury. The MHFA obtains from independent valuation specialists annual calculations of its arbitrage rebate liability.

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

Net assets of General Reserve and bond funds are divided into two primary categories. Net assets Restricted by Bond Resolution are pledged to the payment of bonds, subject to bond resolution requirements that authorize MHFA to withdraw funds in excess of the amounts required

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

to be maintained under the bond resolutions. Net assets Restricted by Covenant are subject to a covenant with bondholders that the Agency shall use the money in General Reserve (including the Alternative Loan Fund) only for the administration and financing of programs in accordance with the policy and purpose of the MHFA enabling legislation, including the creation of reserves for the 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 3% to $666.978 million at June 30, 2004 as a result of consistent financial performance of the bond funds.

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 adequate in fiscal year 2004, modestly lower than fiscal year 2003 after considering the net effect of unrealized gains and losses that result from market valuation adjustments to certain investment assets. Compared to the prior year, both total revenues and total expenses were down. Offsetting some of the unfavorable effects of interest revenue declines was the favorable effect of interest expense declines.

The largest revenue component, interest earned, was down throughout the year as yields on loans and investments remained at historically low levels. Combined interest revenues of General Reserve and bond funds from loans and investments declined 9% to $132.544 million compared to the prior year, consistent with historically low interest rates. Loan interest was lower in fiscal year 2004 as mortgage loan refinancing caused higher levels of prepayments and, when combined with repayments, exceeded new loan purchases and originations which were also at lower interest rates. Investment interest was lower in fiscal year 2004 due to continued low interest rates.

Administrative reimbursements to General Reserve from bond funds decreased negligibly to $14.349 million compared to prior year as administrative expense requirements remained similar to fiscal year 2003 in General Reserve.

Other fee income to General Reserve and bond funds decreased negligibly to $8.883 million compared to the prior year. The primary components of other fee income continue to be federal housing tax credit program fees, Section 8 contract administration fees and federal Housing Assistance Payments administration fees.

MHFA recorded $9.022 million of unrealized losses on investment securities during fiscal year 2004, compared to $5.394 million of unrealized gains during the prior year, for a net decrease of $14.416 million. Unrealized losses occurred when the cumulative unrealized gains from prior periods were reversed as the investment securities neared maturity and when interest rates began rising in 2004.

Interest expense of the bond funds decreased 11% to $89.514 million compared to the prior year as a result of reduced interest rates on recently issued bonds and fewer average bonds outstanding.

Combined expenses for loan administration, trustee fees and administrative reimbursements in the bond funds declined slightly by 2% to $14.834 million compared to the prior year. The majority of the decrease is a result of the reduction of loan administration fees as loans outstanding has declined. Note that $13.663 million of the total administrative fee reimbursement revenue of $14.349 million was interfund charges which were eliminated for purposes of financial reporting in the Agency-wide financial statements.

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

Salaries, benefits, and other general operating expenses in General Reserve and bond funds decreased 2% to $19.165 million compared to the prior year due to capitalized expenses for information systems development projects.

Reductions in carrying value of certain low interest rate deferred loans in the bond funds increased by $2.823 million to $2.492 million as valuation reductions of new deferred loans exceeded recoveries from existing deferred loans.

Provision for loan loss expense in the bond funds increased 6% to $2.230 million, consistent with management's assessment of increasing loan portfolio risk despite declining loan volume. Non-operating transfers occur as a result of bond sale contributions related to new debt issues, the periodic transfer of assets to maintain the Housing Endowment Fund requirement, and periodic transfers from the bond funds of amounts in excess of bond resolution requirements.

Combined revenues over expenses for General Reserve and the bond funds decreased 49% to $18.519 million compared to prior year. After considering the non-operating effects of unrealized gains and losses that adjust certain investment asset values to market conditions, the combined revenues over expenses are down primarily as a result of historically low interest rates and declining loan assets. Although down from the previous year, this level of net revenue over expenses remains comparable at the lower range of performance of General Reserve and the bond funds in recent years. Revenues over expenses in General Reserve that are in excess of the Housing Endowment Fund requirement are transferred periodically to the Housing Investment and/or Housing Affordability Fund in the Residential Housing Finance Fund for use in housing programs.

Total combined net assets of General Reserve and bond funds have increased 3% to $666.978 million as a result of revenues over expenses for fiscal year 2004. The net assets of Rental Housing and Residential Housing Finance bond funds have increased while net assets of General Reserve and Single Family bond fund have decreased, as a result of net revenues over expenses by fund and non-operating transfers of assets between funds.

State and Federal Appropriated Funds — Statement of Net Assets

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

Investments, cash, and cash equivalents are the largest category of assets in the Appropriated Funds. The June 30, 2004 combined balance decreased 31% to $86.169 million as a result of higher levels of disbursements and lower levels of receipts in the current year. Appropriations received in the prior year were higher mainly due to one-time appropriations.

Certain state appropriations are expended as housing loans with below market interest rates, resulting in loans receivable. At June 30, 2004 State Appropriated Fund loans receivable increased 6% to $29.093 million reflecting higher volume of state loan program activity.

Interest receivable in Appropriated Funds is a function of the timing of interest payments and the general level of interest rates on investments. Interest receivable on Appropriated Funds at June 30, 2004 decreased 59% to $.514 million as a result of declining investment yields and lower average investment balances.

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

Accounts payable and other liabilities represent amounts payable for HUD Section 236 interest reduction payments, Section 8 FA/FAF savings and accrued expenses for federal and state housing programs. The balance payable at June 30, 2004 was $2.720 million.

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, 2004 the combined net interfund receivable was $1.234 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, 2004 the balance of funds held for the federal government was $1.653 million.

All of the net assets of the Appropriated Funds are restricted by law for use with housing programs only and are not pledged to support the bondholders or creditors of MHFA. The combined net assets of the Appropriated Funds declined to $114.110 million as of June 30, 2004 compared to the prior period, reflecting reduced levels of new appropriations received and increased appropriations disbursed during fiscal year 2004.

State and Federal Appropriated Funds — Revenues Over Expenses

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

The largest revenue category is appropriations received, and is a function of the fiscal, legislative, and political environment of the State of Minnesota and the federal government. The combined appropriations received decreased from $198.516 million at June 30, 2003 to $189.913 at June 30, 2004. Federal appropriations increased while state appropriations decreased.

Interest income from investments was down throughout the year as interest rates in general continued their decline to historically low levels. Investment assets were also down during the year contributing to the combined interest income decline of 65% to $1.845 million at June 30, 2004.

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

Unrealized losses on investments are recorded to reflect valuation adjustments to current market conditions for investments, and may be reversed over time as the investments are held. Unrealized losses decreased significantly by 70% to $.603 million compared to the prior year as previous losses were reversed as investment asset balances were spent in program disbursements.

Administrative reimbursements of expenses to General Reserve decreased 8% to $4.131 million compared to the prior year, primarily as a result of reduced expense to administer state appropriated programs.

Combined appropriations disbursed increased 6% to $180.098 million compared to prior year, reflecting continued efforts to support housing policy objectives.

Reduced expenditures of State Appropriated Funds for below market and zero-percent interest rate loans resulted in less reductions in carrying value of certain loans. Net reductions of carrying value decreased 14% to $43.975 million compared to prior year, as a result of making fewer 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 decreased 37% to $1.145 million at June 30, 2004.

Combined expenditures exceeded combined revenues of the Appropriated Funds by $37.611 at June 30, 2004, reflecting current year disbursements of appropriations that were received in prior years. Ultimately, the entire State and Federal Appropriated Funds' net assets will be expended for housing.

Significant Long-term Debt Activity

MHFA is a significant debt issuer, having outstanding at June 30, 2004 long-term debt totaling $1,337 million and short-term debt totaling $507 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, 2004, amounts held by the trustee in principal, interest and redemption accounts represented full funding of debt service requirements to that date. Bond resolutions also require funding of debt service reserve accounts and may require funding of insurance reserve accounts. At June 30, 2004, amounts held by the trustee in such reserve and revenue accounts represented full funding of those requirements to that date.

Most of the debt issued by MHFA is tax-exempt and is issued under the Internal Revenue Code and Treasury regulations governing either mortgage revenue bonds or residential rental projects. MHFA's ability to issue tax-exempt debt is limited by MHFA's share of the state's allocation of the private activity volume cap, which is set in Minnesota law. MHFA's ability to issue tax-exempt debt is also limited by the federal rule (commonly known as the 10-year rule) that prohibits refunding of mortgage repayments and prepayments received more than ten years after the date of issuance of the bonds that financed such mortgage loans. When economic conditions favor it, MHFA issues limited amounts of taxable debt in order to supplement its tax-exempt authority and for lending under programs where federal restrictions are inconsistent with the program requirements. Board policy governs the process MHFA follows to issue and manage debt and state statute limits MHFA's outstanding debt to $3.0 billion.

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

MHFA continually investigates and utilizes available debt management techniques to achieve its goals of reducing interest expense and efficiently utilizing its bonding authority.

During the year, MHFA completed the issuance/remarketing of 26 series of bonds aggregating to $761 million. This is compared to the combined issuance and remarketing of 16 series totaling $447 million the previous year. In recent years, MHFA has retired high rate debt when it becomes optionally redeemable and resources were available. Bonds are issued as capital is needed for program purposes, as opportunities for economic refundings occur, and for preservation of bonding authority.

A total of $766 million in principal payments were made during the year. Of this amount, $378 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 2003 Minnesota Legislature adopted a FY 2004 — 2005 biennial budget that appropriates less money to MHFA than the previous biennium's base appropriations as part of an effort to balance the budget of the State of Minnesota for the current biennium. The $9.3 million reduction represents 12% of the total base appropriation to MHFA. In May 2004, the governor directed state agencies to reduce budgets for FY 2005 in order to eliminate a projected $160 million deficit. MHFA was directed to reduce its state appropriated budget by $628,000 or about 1.8% of the funds appropriated for FY 2005. State appropriations are used for specific programs, and are not available to pay for MHFA operations or debt service. Changes in state and federal laws, governing administration, funding objectives, housing policy, and fiscal policy pose a potential risk to MHFA's attainment of mission and financial objectives.

Additional Information

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

MINNESOTA HOUSING FINANCE AGENCY
Agency-wide Financial Statements
Statement of Net Assets (in thousands)
June 30, 2004 (with comparative totals for June 30, 2003)

		2004 Agency-wide Total	2003 Agency-wide Total
Assets	Cash and cash equivalents	$ 950,429	$ 857,905
	Investment securities	385,083	439,645
	Loans receivable, net	1,413,897	1,478,002
	Interest receivable on loans	7,395	8,032
	Interest receivable on investments	3,939	5,511
	Mortgage insurance claims receivable	763	584
	Real estate owned	1,593	899
	Capital assets, net	1,774	733
	Other assets	3,122	2,499
	Total assets	$2,767,995	$2,793,810
Liabilities	Bonds payable, net	$1,844,589	$1,846,679
	Interest payable	36,283	43,464
	Accounts payable and other liabilities	17,872	15,371
	Funds held for others	88,163	88,116
	Total liabilities	1,986,907	1,993,630
	Commitments and contingencies		
Net Assets	Restricted by bond resolution	387,747	382,253
	Restricted by covenant	277,457	265,473
	Restricted by law	114,110	151,721
	Invested in capital assets	1,774	733
	Total net assets	781,088	800,180
	Total liabilities and net assets	$2,767,995	$2,793,810

See accompanying notes to financial statements.

MINNESOTA HOUSING FINANCE AGENCY
Agency-wide Financial Statements
Statement of Activities (in thousands)
Year ended June 30, 2004 (with comparative totals for the year ended June 30, 2003)

		2004 Agency-wide Total	2003 Agency-wide Total
Revenues	Interest earned on loans	$ 95,338	$109,109
	Interest earned on investments	39,093	41,258
	Appropriations received	189,913	198,516
	Administrative reimbursement	686	701
	Fees earned and other income	9,658	9,719
	Unrealized gains on securities	(9,625)	3,374
	Total revenues	325,063	362,677
Expenses	Interest	89,514	101,023
	Loan administration and trustee fees	5,339	5,981
	Salaries and benefits	13,131	13,124
	Other general operating	7,179	8,347
	Appropriations disbursed	180,098	170,693
	Reduction in carrying value of certain low interest rate deferred loans	46,467	50,878
	Provision for loan losses	2,427	2,106
	Total expenses	344,155	352,152
	Revenues over expenses	(19,092)	10,525
	Change in net assets	(19,092)	10,525
Net Assets	Total net assets, beginning of year	800,180	789,655
	Total net assets, end of year	$781,088	$800,180

See accompanying notes to financial statements.

MINNESOTA HOUSING FINANCE AGENCY
Fund Financial Statements
Statement of Net Assets (in thousands)
Proprietary Funds
June 30, 2004 (with comparative totals for June 30, 2003)

			Bond Funds		
		General Reserve	Rental Housing	Residential Housing Finance	Single Family
Assets	Cash and cash equivalents	$ 4,807	$ 43,273	$ 629,917	$261,992
	Investment securities	115,155	38,771	142,893	12,535
	Loans receivable, net	—	228,622	633,363	522,819
	Interest receivable on loans	—	1,697	2,887	2,811
	Interest receivable on investments	1,128	1,141	913	243
	Mortgage insurance claims receivable	—	—	6	757
	Real estate owned	—	—	251	1,342
	Capital assets, net	1,774	—	—	—
	Other assets	1,138	8	498	5
	Total assets	$124,002	$313,512	$1,410,728	$802,504
Liabilities	Bonds payable, net	$ —	$216,928	$ 933,993	$693,668
	Interest payable	—	4,945	12,141	19,197
	Accounts payable and other liabilities	3,669	418	2,348	8,717
	Interfund payable (receivable)	3,708	21,150	(24,791)	1,167
	Funds held for others	86,510	—	—	—
	Total liabilities	93,887	243,441	923,691	722,749
	Commitments and contingencies				
Net Assets	Restricted by bond resolution	—	70,071	237,921	79,755
	Restricted by covenant	28,341	—	249,116	—
	Restricted by law	—	—	—	—
	Invested in capital assets	1,774	—	—	—
	Total net assets	30,115	70,071	487,037	79,755
	Total liabilities and net assets	$124,002	$313,512	$1,410,728	$802,504

See accompanying notes to financial statements.

Appropriated Funds			
State Appropriated	**Federal Appropriated**	**2004 Total**	**2003 Total**
$ 6,256	$ 4,184	$ 950,429	$ 857,905
69,220	6,509	385,083	439,645
29,093	—	1,413,897	1,478,002
—	—	7,395	8,032
432	82	3,939	5,511
—	—	763	584
—	—	1,593	899
—	—	1,774	733
250	1,223	3,122	2,499
$105,251	$11,998	$2,767,995	$2,793,810
$ —	$ —	$1,844,589	$1,846,679
—	—	36,283	43,464
754	1,966	17,872	15,371
(1,448)	214	—	—
—	1,653	88,163	88,116
(694)	3,833	1,986,907	1,993,630
—	—	387,747	382,253
—	—	277,457	265,473
105,945	8,165	114,110	151,721
—	—	1,774	733
105,945	8,165	781,088	800,180
$105,251	$11,998	$2,767,995	$2,793,810

MINNESOTA HOUSING FINANCE AGENCY
Fund Financial Statements
Statement of Revenues, Expenses and Changes in Net Assets (in thousands)
Proprietary Funds
Year ended June 30, 2004 (with comparative totals for the year ended June 30, 2003)

			Bond Funds		
		General Reserve	Rental Housing	Residential Housing Finance	Single Family
Revenues	Interest earned on loans	$ —	$16,982	$ 31,989	$ 46,325
	Interest earned on investments	617	3,098	15,499	18,034
	Appropriations received	—	—	—	—
	Administrative reimbursement	14,349	—	—	—
	Fees earned and other income	7,631	933	319	—
	Unrealized gains (losses) on securities	(2,042)	(1,473)	(2,735)	(2,772)
	Total revenues	20,555	19,540	45,072	61,587
Expenses	Interest	—	15,196	23,064	51,254
	Loan administration and trustee fees	—	246	2,651	2,405
	Administrative reimbursement	—	1,496	3,383	4,653
	Salaries and benefits	13,131	—	—	—
	Other general operating	5,782	—	252	—
	Appropriations disbursed	—	—	—	—
	Reduction in carrying value of certain low interest rate deferred loans	—	(226)	2,718	—
	Provision for loan losses	—	897	1,255	78
	Total expenses	18,913	17,609	33,323	58,390
	Revenues over (under) expenses	1,642	1,931	11,749	3,197
Other changes	Non-operating transfer of assets between funds	(4,036)	358	15,596	(11,918)
	Change in net assets	(2,394)	2,289	27,345	(8,721)
Net Assets	Total net assets, beginning of year	32,509	67,782	459,692	88,476
	Total net assets, end of year	$30,115	$70,071	$487,037	$ 79,755

See accompanying notes to financial statements.

Appropriated Funds			
State Appropriated	Federal Appropriated	2004 Total	2003 Total
$ 42	$ —	$ 95,338	$109,109
1,646	199	39,093	41,258
35,069	154,844	189,913	198,516
—	—	14,349	14,372
775	—	9,658	9,719
(474)	(129)	(9,625)	3,374
37,058	154,914	338,726	376,348
—	—	89,514	101,023
37	—	5,339	5,981
4,131	—	13,663	13,671
—	—	13,131	13,124
1,145	—	7,179	8,347
23,714	156,384	180,098	170,693
43,975	—	46,467	50,878
197	—	2,427	2,106
73,199	156,384	357,818	365,823
(36,141)	(1,470)	(19,092)	10,525
—	—	—	—
(36,141)	(1,470)	(19,092)	10,525
142,086	9,635	800,180	789,655
$105,945	$ 8,165	$781,088	$800,180

MINNESOTA HOUSING FINANCE AGENCY
Fund Financial Statements
Statement of Cash Flows (in thousands)
Proprietary Funds
Year ended June 30, 2004 (with comparative totals for the year ended June 30, 2003)

			Bond Funds		
		General Reserve	Rental Housing	Residential Housing Finance	Single Family
Cash flows from operating activities	Principal repayments on loans	$ —	$ 27,622	$ 97,365	$ 234,931
	Investment in loans	—	(21,860)	(254,070)	(25,669)
	Interest received on loans	—	16,815	31,403	43,818
	Other operating	—	—	(252)	—
	Fees and other income received	7,628	933	427	—
	Salaries, benefits and vendor payments	(18,391)	(249)	(2,262)	(2,419)
	Appropriations received	—	—	—	—
	Appropriations disbursed	—	—	—	—
	Administrative reimbursement from funds	14,379	(1,491)	(3,383)	(4,653)
	Interest transferred to funds held for others	(2,649)	—	—	—
	Deposits into funds held for others	35,907	—	10	—
	Disbursements made from funds held for others	(35,747)	—	(4)	—
	Interfund transfers and other assets	(352)	—	222	(333)
	Net cash provided (used) by operating activities	775	21,770	(130,544)	245,675
Cash flows from noncapital financing activities	Proceeds from sale of bonds	—	13,485	727,941	23,000
	Principal repayment on bonds	—	(43,740)	(313,223)	(408,710)
	Interest paid on bonds and notes	—	(12,824)	(17,226)	(59,488)
	Financing costs paid related to bonds issued	—	(315)	(4,117)	(294)
	Interest paid/received between funds	—	(1,541)	1,541	—
	Principal paid/received between funds	—	(135)	135	—
	Premium paid on redemption of bonds	—	(392)	—	(1,026)
	Agency contribution to program funds	—	358	11,560	(11,918)
	Transfer of cash between funds	(2,856)	—	2,856	—
	Net cash provided (used) by noncapital financing activities	(2,856)	(45,104)	409,467	(458,436)
Cash flows from investing activities	Investment in real estate owned	—	—	(49)	(692)
	Interest received on investments	4,003	3,338	14,668	15,615
	Proceeds from sale of mortgage insurance claims/real estate owned	—	—	708	5,885
	Proceeds from maturity, sale or transfer of investment securities	40,080	32,729	142,136	20,798
	Purchase of investment securities	(39,343)	(29,155)	(151,060)	(5,753)
	Purchase of loans between funds	—	—	(64,236)	64,236
	Net cash provided (used) by investing activities	4,740	6,912	(57,833)	100,089
	Net increase (decrease) in cash and cash equivalents	2,659	(16,422)	221,090	(112,672)
Cash and cash equivalents	Beginning of year	2,148	59,695	408,827	374,664
	End of year	$ 4,807	$ 43,273	$ 629,917	$ 261,992

See accompanying notes to financial statements.

Appropriated Funds			
State Appropriated	Federal Appropriated	2004 Total	2003 Total
$ 9,050	$ —	$ 368,968	$ 452,221
(54,632)	—	(356,231)	(303,852)
42	—	92,078	108,812
(866)	—	(1,118)	(1,939)
525	—	9,513	8,731
(298)	—	(23,619)	(25,175)
35,069	154,365	189,434	198,417
(23,630)	(155,506)	(179,136)	(169,780)
(4,188)	—	664	965
—	(11)	(2,660)	(3,481)
—	698	36,615	35,983
—	(817)	(36,568)	(42,846)
126	—	(337)	(506)
(38,802)	(1,271)	97,603	257,550
—	—	764,426	446,823
—	—	(765,673)	(538,270)
—	—	(89,538)	(99,038)
—	—	(4,726)	(2,066)
—	—	—	—
—	—	—	—
—	—	(1,418)	(1,103)
—	—	—	—
—	—	—	—
—	—	(96,929)	(193,654)
—	—	(741)	(429)
2,782	328	40,734	46,143
—	—	6,593	4,034
142,782	8,316	386,841	407,859
(109,478)	(6,788)	(341,577)	(429,471)
—	—	—	—
36,086	1,856	91,850	28,136
(2,716)	585	92,524	92,032
8,972	3,599	857,905	765,873
$ 6,256	$ 4,184	$ 950,429	$ 857,905

(continued)

MINNESOTA HOUSING FINANCE AGENCY
Fund Financial Statements
Statement of Cash Flows (in thousands)
Proprietary Funds (continued)
Year ended June 30, 2004 (with comparative totals for the year ended June 30, 2003)

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

		Bond Funds		
	General Reserve	Rental Housing	Residential Housing Finance	Single Family
Revenues over (under) expenses	$ 1,642	$ 1,931	$ 11,749	$ 3,197
Adjustments to reconcile revenues over (under) expenses to net cash provided (used) by operating activities:				
Amortization of premiums (discounts) and fees on loans	—	(164)	326	(3,626)
Depreciation	481	—	—	—
Loss on disposal of fixed assets	—	—	—	—
Realized gains on sale of securities, net	(80)	(134)	(159)	(1,650)
Unrealized losses (gains) on securities, net	2,042	1,473	2,735	2,772
Provision for loan losses	—	897	1,255	78
Reduction in carrying value of certain low interest rate and/or deferred loans	—	(226)	2,718	—
Capitalized interest on loans and real estate owned	—	(73)	(44)	(420)
Interest earned on investments	(537)	(3,141)	(16,181)	(16,619)
Interest expense on bonds and notes	—	15,196	23,064	51,254
Changes in assets and liabilities:				
Decrease (increase) in loans receivable, excluding loans transferred between funds	—	5,762	(156,705)	209,262
Decrease (increase) in interest receivable on loans	—	70	(867)	1,434
Increase in arbitrage rebate liability	—	177	841	340
Interest transferred to funds held for others	(2,649)	—	—	—
Increase (decrease) in accounts payable	41	(4)	496	(15)
Increase (decrease) in interfund payable, affecting operating activities only	30	5	207	(333)
Increase (decrease) in funds held for others	160	—	6	—
Other	(355)	1	15	1
Total	(867)	19,839	(142,293)	242,478
Net cash provided (used) by operating activities	$ 775	$21,770	$(130,544)	$245,675

See accompanying notes to financial statements.

Appropriated Funds			
State Appropriated	Federal Appropriated	2004 Total	2003 Total
$(36,141)	$(1,470)	$ (19,092)	$ 10,525
—	—	(3,464)	(1,369)
—	—	481	539
—	—	—	571
(2)	(1)	(2,026)	(1,206)
474	129	9,625	(3,374)
197	—	2,427	2,106
43,975	—	46,467	50,878
—	—	(537)	(348)
(1,644)	(198)	(38,320)	(41,497)
—	—	89,514	101,023
(45,582)	—	12,737	148,369
—	—	637	1,320
—	—	1,358	1,545
—	(11)	(2,660)	(3,481)
102	856	1,476	(386)
69	22	—	—
—	(119)	47	(6,863)
(250)	(479)	(1,067)	(802)
(2,661)	199	116,695	247,025
$(38,802)	$(1,271)	$ 97,603	$257,550

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2004

Nature of Business and Fund Structure

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

The Agency is authorized to issue bonds and other obligations to fulfill its corporate purposes up to a total outstanding amount of $3.0 billion. Amounts so issued shall not be deemed to constitute a debt of the State of Minnesota or any political subdivision thereof.

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

General Reserve

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

Rental Housing

Bond proceeds for the multifamily housing programs were maintained under the Rental Housing bond resolution. Loans are secured by first mortgages on real property.

Residential Housing Finance

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

Bonds

The series bonds outstanding were issued to fund purchases of single family first mortgage loans and home improvement subordinated loans. Assets of the series bonds issued and outstanding under the resolution and of the three endowment funds described below are pledged to the repayment of Residential Housing Finance bondholders.

Home Improvement Endowment Fund

This fund is a principal source of funding for home improvement loans. Home improvement loans in excess of $10,000 are generally secured by a second mortgage.

Homeownership Endowment Fund

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

Nature of Business and Fund Structure (continued)

Multifamily Endowment Fund

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

Alternative Loan Fund

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

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

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

Single Family

Bonds issued for homeownership programs have been issued under Single Family and, since 2001, under Residential Housing Finance. The Agency generally expects to issue future bonds for homeownership programs under Residential Housing Finance. Agency contributions to bonds issued under Residential Housing Finance may be made from Single Family. Loans are secured by first mortgages on real property.

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

State Appropriated

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

Federal Appropriated

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

Summary of Significant Accounting Policies

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

Basis of Accounting

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

Generally Accepted Accounting Principles

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

In May 2002, the Governmental Accounting Standards Board (GASB) issued Statement No. 39, *Determining Whether Certain Organizations Are Component Units, an Amendment of GASB Statement No. 14,* which is effective for the year ended June 30, 2004. Statement No. 39 amends Statement No. 14 to provide additional guidance to determine whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationship with the primary government. Generally, Statement No. 39 requires reporting, as a component, an organization that raises and holds economic resources for the direct benefit of a governmental unit. Statement No. 39 did not have an impact on the Agency's financial statements.

On March 27, 2003 GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures, which amends GASB Statement No. 3, Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase,* to require disclosure of information covering four principal areas:

- Investment credit risk disclosures, including credit quality information issued by rating agencies.
- Interest rate disclosures that include investment maturity information, such as weighted average maturities or specification identification of the securities.
- Interest rate sensitivity for investments highly sensitive to changes in interest rates (e.g., inverse floaters, enhanced variable-rate investments, and certain asset-backed securities).
- Foreign exchange exposures that would indicate the foreign investment's denomination.

GASB Statement No. 40 is effective for the fiscal year ending June 30, 2005. The adoption of GASB Statement No. 40 will not affect the Agency's net assets.

On June 25, 2003, the GASB issued Technical Bulletin 2003-1, *Disclosure Requirements for Derivatives Not Presented at Fair Value on the Statement of Net Assets,* which requires state and local governments to disclose the objectives of derivatives, such as interest rate swaps, as well as their terms, fair values, and certain risks. This Technical Bulletin was implemented by the Agency for the fiscal year ended June 30, 2004, and did not affect the Agency's net assets.

Summary of Significant Accounting Policies (continued)

In November 2003, the GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries.* GASB Statement No. 42 requires governments to evaluate prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Under GASB Statement No. 42, a capital asset generally should be considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstance is outside the normal life cycle of the capital asset. Additionally, GASB Statement No. 42 requires impaired capital assets that are idle to be disclosed, and those that will no longer be used by the government to be reported at the lower of carrying value or fair value. GASB Statement No. 42 also requires that an insurance recovery associated with events or changes in circumstances resulting in impairment of a capital asset to be netted with the impairment loss, if any. The provisions of GASB Statement No. 42 are effective for fiscal periods beginning after December 15, 2004. The adoption of GASB Statement No. 42 in fiscal 2006 is not expected to have a significant effect on the Agency's financial statements.

In May 2004, the GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.* Other postemployment benefits (OPEB) include health care and other non-pension benefits provided to employees as part of their compensation for services. The standards apply to OPEB plans that are included as trust funds in the financial reports of plan sponsors or employers, and to stand-alone financial reports of OPEB plans that are established as trusts, when issued by the public employee retirement systems or other governmental entities that administer them. GASB Statement No. 43 also provides requirements for reporting of OPEB funds by administrators of multiple-employer OPEB plans when the fund used is not a trust fund. GASB Statement No. 43 addresses the relevance and usefulness of financial reporting by (a) requiring systematic, accrual-basis measurement and recognition of OPEB cost (expense) over a period that approximates employees' years of service and (b) providing information about actuarial liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan. GASB Statement No. 43 is effective for the Agency's fiscal year ending June 30, 2007. The Agency has not yet determined the effect that the adoption of this Statement will have on its financial statements.

In June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. The approach followed in this Statement generally is consistent with the approach adopted in Statement No. 27, Accounting for Pensions by State and Local Governmental Employers, with modifications to reflect differences between pension benefits and OPEB. Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, addresses financial statement and disclosure requirements for reporting by administrators or trustees of OPEB plan assets or by employers or sponsors that include OPEB plan assets as trust or agency funds in their financial reports. GASB Statement No. 45 is effective for the Agency's fiscal year ending June 30, 2007. The Agency has not yet determined the effect that the adoption of this Statement will have on its financial statements.

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.

Summary of Significant Accounting Policies (continued)

Loans Receivable, Net

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

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

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

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

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, 2004.

Premiums, discounts or fees resulting from the purchase or origination of mortgage loans at other than face value are amortized over the life of the loans using the effective interest method. Prepayments of mortgages are taken into account in the calculation of the amortization. The amount amortized is included in interest earned on loans.

Interest Receivable on Loans

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

Mortgage Insurance Claims Receivable

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

Real Estate Owned

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

Bonds Payable, Net

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

Summary of Significant Accounting Policies (continued)

Interfund Payable (Receivable)

Interfund payable (receivable) primarily reflects pending transfers of cash and assets between funds. The more significant activities that flow through this fund may include funds advanced for purposes of optionally redeeming bonds when economically advantageous, funds advanced for loan warehousing, administrative fees receivable and payable between funds, and certain mortgage payments received but not yet transferred to their respective funds.

Funds Held for Others

Funds held for others are primarily escrow amounts held by the Agency on behalf of multifamily housing developments where the Agency holds the first mortgages. These amounts are held under the terms of the related loans and federal regulations regarding subsidized housing. Investment income relating to these funds is credited directly to the escrow funds; it is not included in the investment income of General Reserve. Also included in funds held for others are funds pending disbursement to HUD, such as McKinney Act savings and Section 8 payments. In addition, investment income on unspent Section 8 funds is credited directly to Funds Held For Others and not included in the investment income of Federal Appropriated.

Restricted by Bond Resolution

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

Restricted by Covenant

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

Restricted by Law

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

Invested in Capital Assets

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

Agency-wide Total

The Agency-wide Total columns reflect the totals of the similar accounts of the various funds. Since the assets of certain of the funds are restricted by either the related bond resolutions or legislation, the totaling of the accounts, including assets therein, is for convenience only and does not indicate that the combined assets are available in any manner other than that provided for in either the bond resolutions or the legislation for the separate funds or groups of funds. The totals for fiscal year 2003 are for comparative purposes only.

Administrative Reimbursement

The largest source of funding for the Agency's administrative operations is a monthly transfer from each of the bond funds to General Reserve based on adjusted assets. Adjusted assets are defined as total assets plus the reserve for loan loss plus unearned discounts on loans minus the proceeds of short-term debt minus premiums on loans.

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

Summary of Significant Accounting Policies (continued)

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. Total direct and indirect costs recovered from the federal government in the amount of $686,000 are reflected as administrative reimbursement revenues in the Agency-wide statement of activities.

Administrative reimbursements in the amount of $13,663,000 between the Agency's funds have been eliminated from the respective administrative reimbursement revenues and expenses line items for purposes of presentation in the Agency-wide statement of activities.

Fees Earned and Other Income

Fees earned and other income consists mainly of fees related to the financing and administration of Section 8 properties, including administration of a HUD-owned Section 8 portfolio, fees in connection with operating the Low Income Housing Tax Credits program, private contributions restricted to use in the Agency's Homeownership Education, Counseling and Training Program and application fees for administering the Class 4(d) Real Estate Tax Assessment Legislation. Fees earned and other income is recorded as it is earned.

Reduction in Carrying Value of Certain Low Interest Rate Deferred Loans

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

Other Changes

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

Non-operating Transfer of Assets Between Funds

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

Non-Cash Activities

Transfers from loans receivable to mortgage insurance claims receivable and real estate owned for fiscal year 2004 were $.74 million and $5.70 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).

Summary of Significant Accounting Policies (continued)

Reclassifications

Certain amounts in the financial statements for the prior year have been reclassified to conform with the present year presentation.

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.

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, 2004 (in thousands):

Cash and Cash Equivalents

Funds	Deposits	Repurchase Agreements	Investment Agreements	Combined Totals
General Reserve	$ 827	$ 3,980	$ —	$ 4,807
Rental Housing	—	6,871	36,402	43,273
Residential Housing Finance	5,915	64,486	559,516	629,917
Single Family	8,541	19,790	233,661	261,992
State Appropriated	—	6,256	—	6,256
Federal Appropriated	1,656	2,528	—	4,184
Agency-wide Totals	$16,939	$103,911	$829,579	$950,429

Deposits may consist of commercial paper for General Reserve, State Appropriated and Federal Appropriated and cash awaiting investment for the remainder of the funds. The commercial paper is held by the Agency's agent. Cash awaiting investment consists of interest earned on investments received too late on the last day of the fiscal year to be invested and loan servicer deposits in transit.

Repurchase agreements are collateralized at 102% of loan value with US treasury and agency securities. Generally, repurchase agreements mature in one week or less. At June 30, 2004, the collateral for the repurchase agreements in General Reserve, State Appropriated, Federal Appropriated and bond funds is held by a third-party agent.

Generally, investment agreements are uncollateralized, interest-bearing contracts with financial intermediaries with variable liquidity features, which require a one-day to two-week notice for deposits and/or withdrawals, and are invested in accordance with the restrictions specified in the various bond funds. As of June 30, 2004, all the investment agreement providers have a Standard & Poor's long-term credit rating of "AA–" or higher and a Moody's long-term credit rating of "Aa3" or higher. 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.

Cash, Cash Equivalents and Investment Securities (continued)

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, 2004 (in thousands):

Investment Securities

Funds	US Treasuries, US Agencies and Municipals, at Amortized Cost	Unrealized Appreciation (Depreciation) in Fair Market Value	Estimated Market Value
	Fair Market Value		
General Reserve	$115,059	$ 96	$115,155
Rental Housing	38,543	228	38,771
Residential Housing Finance	141,808	1,085	142,893
Single Family	11,946	589	12,535
State Appropriated	69,434	(214)	69,220
Federal Appropriated	6,527	(18)	6,509
Agency-wide Totals	$383,317	$1,766	$385,083

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

Net realized gain on sale of investment securities of $2.026 million is included in interest earned on investments.

Certain balances are required to be maintained under the various bond resolutions. These balances represent debt service and insurance reserves. The required balances at June 30, 2004 are as follows (in thousands):

Funds	Amount
Rental Housing	$22,319
Residential Housing Finance	12,536
Single Family	29,586
Totals	$64,441

Loans Receivable, Net

Loans receivable, net at June 30, 2004 consist of (in thousands):

Funds	Outstanding Principal	Allowance for Loan Losses	Unamortized Discounts and Fees	Loans Receivable, Net
General Reserve	$ —	$ —	$ —	$ —
Rental Housing	237,604	(7,871)	(1,111)	228,622
Residential Housing Finance	645,155	(8,420)	(3,372)	633,363
Single Family	529,517	(109)	(6,589)	522,819
State Appropriated	30,146	(1,053)	—	29,093
Federal Appropriated	—	—	—	—
Agency-wide Totals	$1,442,422	$(17,453)	$(11,072)	$1,413,897

Substantially all loans in the table above are secured by first or second mortgages on the real property. Mortgage loans in the Single Family fund and homeownership first mortgage loans in the Residential Housing Finance fund (see following table) are largely 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.

Loans Receivable, Net (continued)

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, 2004, the amount of these loans originated was $1.385 million in the Housing Affordability Fund, $3.655 million in the Homeownership Endowment Fund, $2.322 million in the Multifamily Endowment Fund and $47.714 million in State Appropriated. These loans are excluded from the tables above and below, as they are fully reserved.

Loans receivable, net in Residential Housing Finance at June 30, 2004 consist of a variety of loans as follows (in thousands):

Description	Net Outstanding Amount
Home Improvement Endowment Fund:	
Home Improvement loans, generally secured by a second mortgage	$ 89,157
Homeownership Endowment Fund:	
Homeownership, first mortgage loans	8,307
Other homeownership loans	1,480
Multifamily Endowment Fund:	
Multifamily, generally subordinated mortgage loans reserved at 100%	—
Residential Housing Finance Bonds:	
Homeownership, first mortgage loans	360,672
Alternative Loan Fund, Housing Investment Fund (Pool 2):	
Homeownership, first mortgage loans	8,789
Multifamily, first mortgage loans	14,322
Alternative Loan Fund, Housing Affordability Fund (Pool 3):	
Multifamily, first mortgage loans	119,927
Multifamily, subordinated mortgage loans reserved at 100%	—
Homeownership, first mortgage loans	30,709
Residential Housing Finance Totals	$633,363

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

Other Assets

Other assets, including receivables, at June 30, 2004 consist of the following (in thousands):

Funds	Receivables Due from the Federal Government	Other Assets and Receivables	Total
General Reserve	$1,135	$ 3	$1,138
Rental Housing	—	8	8
Residential Housing Finance	73	425	498
Single Family	—	5	5
State Appropriated	—	250	250
Federal Appropriated	1,139	84	1,223
Agency-wide Totals	$2,347	$775	$3,122

Bonds Payable, Net

Bonds payable, net at June 30, 2004 are as follows (in thousands):

Funds	Outstanding Principal	Unamortized Deferred Finance and Issuance Costs	Net Unamortized Premium	Unamortized Deferred Gain	Bonds Payable, Net
Rental Housing	$ 221,685	$ (4,739)	$ —	$(18)	$ 216,928
Residential Housing Finance	935,210	(4,714)	3,497	—	933,993
Single Family	700,410	(6,742)	—	—	693,668
Totals	$1,857,305	$(16,195)	$3,497	$(18)	$1,844,589

Outstanding principal of bonds payable at June 30, 2004 are as follows (in thousands):

Series	Interest Rate	Maturity	Original Amount	Outstanding Amount
Rental Housing Bonds				
1995 Series C-2	5.00% to 5.95%	2004-2015	$ 38,210	$ 17,710
1995 Series D	5.15% to 6.00%	2004-2022	234,590	108,870
1996 Series A	5.15% to 6.10%	2004-2027	2,820	2,575
1997 Series A	4.85% to 5.875%	2004-2028	4,750	4,365
1998 Series A	5.375%	2028	5,505	5,505
1998 Series B	6.60%	2019	4,180	3,570
1998 Series C	4.30% to 5.20%	2004-2029	2,865	2,665
1999 Series A	4.05% to 5.10%	2004-2024	4,275	3,865
1999 Series B	4.90% to 6.15%	2004-2025	3,160	2,780
2000 Series A	5.35% to 6.15%	2008-2030	9,290	8,095
2000 Series B	5.90%	2031	5,150	4,980
2001 Series A	4.50% to 5.35%	2012-2033	4,800	4,725
2002 Series A	1.75% to 4.05%	2004-2014	27,630	25,725
2003 Series A	4.55% to 4.95%	2018-2045	12,770	12,770
2003 Series B	4.15% to 5.08%	2013-2031	1,945	1,945
2003 Series C-1	4.35% to 5.20%	2013-2034	2,095	2,095
2003 Series C-2	1.80%	2005	100	100
2004 Series A	1.60% to 5.00%	2005-2035	9,345	9,345
			373,480	221,685
Residential Housing Finance Bonds				
1995 Series A	5.00% to 5.85%	2004-2017	53,645	24,410
2002 Series A	4.75% to 5.30%	2012-2019	14,035	6,755
2002 Series B	3.35% to 5.65%	2004-2033	59,650	31,980
2002 Series A-1	4.20% to 4.90%	2012-2019	6,860	6,860
2002 Series B-1	2.40% to 5.35%	2004-2033	25,760	25,505
2002 Series C	1.20%	2005	24,285	24,285
2002 Series D	1.25%	2005	11,230	11,230
2002 Series E	4.30% to 5.00%	2013-2020	12,805	12,725
2002 Series F	2.35% to 5.40%	2004-2032	52,195	51,555
2002 Series G	2.15%	2004	37,470	37,470
2002 Series H	3.88% to 4.93%	2007-2012	20,000	20,000
2003 Series A	1.40% to 4.25%	2005-2034	40,000	40,000
2003 Series B	Variable	2033	25,000	25,000
2003 Series D	1.40%	2005	36,240	36,240
2003 Series E	1.50%	2005	64,975	64,975
2003 Series F	1.00%	2004	39,840	39,840

Bonds Payable, Net (continued)

Series	Interest Rate	Maturity	Original Amount	Outstanding Amount
Residential Housing Finance Bonds (continued)				
2003 Series G	1.00%	2004	$ 24,845	$ 24,845
2003 Series H	1.00%	2004	38,610	38,610
2003 Series I	1.85% to 5.25%	2005-2035	25,000	25,000
2003 Series J	Variable	2033	25,000	25,000
2003 Series K-1	2.25%	2006	24,150	24,150
2003 Series K-2	2.25%	2006	20,045	20,045
2003 Series L-1	2.35%	2006	21,600	21,600
2003 Series L-1	2.35%	2006	111,515	111,515
2003 Series M-1	1.20%	2004	43,545	43,545
2003 Series M-2	1.20%	2004	10,000	10,000
2004 Series A	3.20% to 4.25%	2011-2018	22,480	22,480
2004 Series B	1.40% to 5.00%	2005-2033	94,620	94,620
2004 Series C	4.70%	2035	14,970	14,970
			1,000,370	935,210
Single Family Mortgage Bonds				
1992 Series C-2	6.15%	2023	12,185	2,235
1992 Series D-2	5.35% to 5.95%	2004-2017	26,740	8,460
1992 Series H	6.50%	2026	23,410	18,390
1992 Series I	5.85% to 6.25%	2004-2015	16,365	8,905
1993 Series D	6.40%	2027	17,685	5,640
1993 Series F	6.25%	2020	9,500	2,615
1994 Series D	4.80% to 5.00%	2004-2005	91,660	10,565
1994 Series E	4.70% to 5.90%	2004-2025	31,820	14,105
1994 Series N	6.45%	2025	18,770	1,975
1994 Series O	6.45%	2012	11,580	1,605
1994 Series P	6.45%	2021	21,150	3,510
1994 Series T	5.30% to 6.125%	2004-2017	16,420	3,665
1995 Series B	6.40% to 6.55%	2017-2027	35,815	12,405
1995 Series D	6.40% to 6.45%	2015-2025	40,160	13,335
1995 Series G	7.20% to 8.05%	2004-2012	8,310	1,750
1995 Series H	6.40%	2027	19,240	6,115
1995 Series I	6.35%	2017-2018	7,450	2,365
1995 Series J	5.00% to 6.10%	2004-2019	16,065	4,740
1995 Series K	6.20%	2020	1,495	555
1995 Series L	6.25%	2027	12,950	4,820
1995 Series M	4.90% to 5.875%	2004-2017	32,025	13,560
1996 Series A	6.375%	2028	34,480	7,725
1996 Series B	6.35%	2018-2019	7,990	3,950
1996 Series C	5.30% to 6.10%	2004-2015	12,345	4,145
1996 Series D	5.25% to 6.00%	2004-2017	23,580	5,315
1996 Series E	6.25%	2022-2023	14,495	4,415
1996 Series F	6.30%	2026-2028	18,275	5,575
1996 Series G	6.25%	2026-2028	41,810	11,295
1996 Series H	6.00%	2021	13,865	3,745
1996 Series I	7.04% to 8.00%	2004-2017	14,325	3,305
1996 Series J	5.60%	2021	915	360
1996 Series K	4.40% to 5.40%	2004-2017	9,280	4,845
1997 Series A	5.05% to 5.95%	2004-2017	22,630	8,360

Bonds Payable, Net (continued)

Series	Interest Rate	Maturity	Original Amount	Outstanding Amount
Single Family Mortgage Bonds (continued)				
1997 Series B	6.20%	2021	$ 9,180	$ 4,340
1997 Series C	6.25%	2029	27,740	5,005
1997 Series D	5.80% to 5.85%	2019-2021	15,885	7,195
1997 Series E	5.90%	2029	23,495	6,145
1997 Series F	7.03% to 7.25%	2004-2007	11,620	1,230
1997 Series G	5.20% to 6.00%	2004-2018	40,260	16,855
1997 Series H	6.15%	2019	11,455	205
1997 Series I	5.50%	2017	9,730	6,225
1997 Series K	5.75%	2026-2029	22,700	14,515
1997 Series L	6.60% to 6.80%	2004-2007	9,550	1,865
1998 Series A	4.65% to 5.20%	2008-2017	5,710	3,050
1998 Series B	4.55% to 5.50%	2004-2029	17,030	7,070
1998 Series C	4.34% to 5.25%	2004-2017	21,775	12,195
1998 Series E	5.40%	2025-2030	30,500	20,715
1998 Series F-1	4.45% to 5.45%	2004-2017	10,650	5,580
1998 Series G-1	5.60%	2022	6,150	3,815
1998 Series H-1	5.65%	2031	14,885	9,240
1998 Series F-2	4.65% to 5.70%	2004-2017	11,385	7,970
1998 Series G-2	6.00%	2022	6,605	5,415
1998 Series H-2	6.05%	2031	15,965	13,100
1999 Series B	5.00% to 5.25%	2013-2020	18,865	13,685
1999 Series C	4.25% to 4.85%	2004-2024	21,960	9,455
1999 Series D	5.45%	2026-2031	23,975	17,430
1999 Series H	5.30% to 5.80%	2011-2021	16,350	11,225
1999 Series I	4.70% to 6.05%	2004-2031	34,700	18,685
1999 Series J	5.00%	2017	4,745	4,375
1999 Series K	3.20% to 5.35%	2004-2033	44,515	40,390
2000 Series A	5.25% to 5.85%	2009-2020	18,650	12,400
2000 Series B	5.15% to 5.55%	2004-2024	16,580	8,135
2000 Series C	6.10%	2030-2032	30,320	20,160
2000 Series F	Variable	2031	20,000	19,410
2000 Series G	4.25% to 5.40%	2008-2025	39,990	36,645
2000 Series H	3.90% to 5.50%	2004-2023	32,475	27,025
2000 Series I	4.85% to 5.80%	2004-2019	20,185	16,805
2000 Series J	5.40% to 5.90%	2023-2030	29,720	24,965
2001 Series A	5.35% to 5.45%	2017-2022	14,570	12,705
2001 Series B	4.10% to 5.675%	2004-2030	34,855	27,835
2001 Series E	2.00% to 4.90%	2006-2035	23,000	23,000
			1,452,510	700,410
Combined Totals			$2,826,360	$1,857,305

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, 2004, excluding bonds called for early redemption prior to June 30, 2004, as listed below, are as follows (in thousands):

Fiscal Year	Rental Housing Bonds		Residential Housing Finance Bonds	
	Principal	Interest	Principal	Interest
2005	$ 9,265	$11,733	$234,530	$23,605
2006	10,120	11,285	108,685	22,512
2007	10,615	10,812	185,430	21,240
2008	11,205	10,297	13,395	16,991
2009	12,040	9,738	8,715	16,598
2010-2014	68,045	38,410	65,350	75,516
2015-2019	47,150	22,261	59,770	61,051
2020-2024	25,000	10,412	68,955	46,936
2025-2029	14,360	5,638	82,275	31,945
2030-2034	7,340	2,555	92,220	13,897
2035-2039	2,985	1,232	15,885	672
2040-2044	2,890	573	—	—
2045-2049	670	25	—	—

Fiscal Year	Single Family Mortgage Bonds		Combined Totals	
	Principal	Interest	Principal	Interest
2005	$ 18,705	$ 38,305	$262,500	$ 73,643
2006	19,305	37,386	138,110	71,183
2007	14,910	36,546	210,955	68,598
2008	15,095	35,780	39,695	63,068
2009	15,640	35,013	36,395	61,349
2010-2014	105,270	160,271	238,665	274,197
2015-2019	133,660	125,977	240,580	209,289
2020-2024	143,310	87,309	237,265	144,657
2025-2029	165,420	42,853	262,055	80,436
2030-2034	67,175	6,764	166,735	23,216
2035-2039	1,920	95	20,790	1,999
2040-2044	—	—	2,890	573
2045-2049	—	—	670	25

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

Residential Housing Finance Bonds, 2003 Series B and J, accrue interest at a rate that changes each week. The rate is determined through a weekly remarketing of the outstanding bonds. Future interest due for these series, as displayed above in the annual debt service requirements table, is based upon the rate as of June 30, 2004. As rates vary, variable rate bond interest payments will vary. The associated interest rate swaps are not included in the annual debt service requirements table. See the Swap Payments and Associated Debt table below to view those amounts.

The Single Family Bonds, 2000 Series F accrue interest at a variable rate that is recalculated for each calendar month. The rate is the sum of the monthly London Interbank Offered Rate plus 0.30% per annum provided that the rate may not be more than 11.00% per annum. This series was placed with a single investor. Future interest due for this series, as displayed above in the annual

Bonds Payable, Net (continued)

debt service requirements table, is based upon the calculated rate as of June 30, 2004. As rates vary, variable rate bond interest payments will vary.

The income and assets of each of the bond funds are pledged for the payment of principal and interest on the bonds issued, and to be issued, by the respective programs. The bond resolutions contain covenants that govern the respective programs financed thereby and require the Agency to maintain certain reserves and meet certain reporting requirements. The Agency believes that as of June 30, 2004, it is in compliance with those covenants and the assets of all funds and accounts in the bond funds equaled or exceeded the requirements as established by the respective bond resolutions.

As of or after June 30, 2004, the Agency called for early redemption of certain bonds that are described under Subsequent Events.

Interest Rate Swaps

Objective of Swaps

During fiscal 2004 the Agency entered into interest rate swap agreements in connection with issuing variable rate mortgage revenue bonds. The intentions of the swaps were to create synthetic fixed rate debt at a lower interest rate than achievable from long-term fixed rate bonds and to achieve the Agency's goal of lending to low- and moderate-income, first-time home buyers at below market, fixed interest rates.

Swap Payments and Associated Debt

Using rates as of June 30, 2004, debt service requirements of the Residential Housing Finance outstanding variable rate debt and net swap payments, assuming current interest rates remain the same for their term, are as follows (in thousands). As rates vary, variable rate bond interest payments and net swap payments will vary.

Fiscal Year	Principal	Interest	Interest Rate Swaps, Net	Total
2005	$ —	$ 538	$1,347	$ 1,885
2006	—	555	1,293	1,848
2007	—	555	1,264	1,819
2008	—	555	1,228	1,783
2009	—	555	1,195	1,750
2010-2014	—	2,775	5,514	8,289
2015-2019	—	2,770	4,859	7,629
2020-2024	6,115	2,728	4,133	12,976
2025-2029	21,400	1,926	2,150	25,476
2030-2034	22,485	607	360	23,452

Terms of Swaps

The terms, including the fair values and counterparty credit ratings of the outstanding swaps as of June 30, 2004, are contained in the table below. The initial notional amounts of the swaps match the principal amounts of the associated debt. The Agency's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled or anticipated reductions in outstanding principal amounts of the associated bond series. The Agency has purchased the cumulative right, based upon a 300% Bond Market Association (BMA) prepayment rate on the underlying mortgage loans, to further reduce the notional balances of the swaps as necessary and the right to terminate the outstanding swap balances at par value on or after the 20 year anniversary dates of the swaps.

Interest Rate Swaps (continued)

Associated Bond Series	Current Notional Amount	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Values	Swap Termination Date	Counterparty Credit Rating
RHFB 2003B	$25,000,000	July 23, 2003	3.532%	65% of one-month LIBOR* plus 0.23% per annum	$ 1,127,840	January 1, 2033	Aa2**/ AA+***
RHFB 2003J	$25,000,000	October 15, 2003	4.183%	65% of one-month LIBOR* plus 0.23% per annum	$(1,037,619)	July 1, 2033	Aa2**/ AA+***
Total	$50,000,000				$ 90,221		

*London Interbank Offered Rate

**Moody's Investors Service, Inc.

***Standard & Poor's Inc.

Swap Valuation

The Fair Values presented above were estimated by the Agency's counterparty to the swaps. The valuation was determined by calculating the difference between the present values of each fixed cash flow to be paid and each floating cash flow to be received by the Agency based upon the current market yield curve. The present value factors for each cash flow are based on the implied zero coupon yield curve determined by current market rates. Additionally, the values of the call options are determined by calculating the present value of each predicted option outcome, whose interest rate prediction variance is determined by current market implied volatility. Together these calculations determine the current fair value of the Agency's swap contracts. The Fair Values in the table above represent the termination payments that would have been due had the swaps been terminated as of June 30, 2004. A positive fair value represents money due the Agency by the counterparty upon termination of the swap while a negative fair value represents money payable by the Agency.

Termination Risk

The Agency's swap contracts are based upon the International Swap Dealers Association Master Agreement, which includes standard termination events. The swap contracts may be terminated by either party if the other party fails to perform under the terms of the contract. Upon termination, a payment is due to one party irrespective of causality based upon the fair value of the swap. The potential termination risks to the Agency are the liability for a termination payment to the counterparty or the inability to replace the swap under favorable financial terms. To reduce the Agency's termination risk, the swap contracts limit the counterparty's ability to terminate due to the following Agency actions or events: payment default, other defaults that remain uncured for 30 days after notice, bankruptcy and insolvency.

Credit Risk

The terms of the swaps expose the Agency to potential credit risk with the counterparty upon the occurrence of a termination event. The fair value of a swap represents the Agency's current credit exposure to the counterparty with which the swaps were executed. As of June 30, 2004, the Agency had a net credit risk exposure to its counterparty because the combined swap position had a positive net fair value. The swap agreements contain varying collateral requirements based upon counterparty credit rating and the fair value of the swap. These bi-lateral requirements are established to mitigate potential credit risk exposure. These requirements were met as of June 30, 2004.

Amortization Risk

The Agency may incur amortization risk because prepayments from the mortgage loan portfolio may cause the outstanding amount of variable rate bonds to decline faster than the amortization of the swap. To ameliorate amortization risk, call options were structured within the

Interest Rate Swaps (continued)

swaps to enable the Agency to closely manage the outstanding balances of variable rate bonds and notional swap amounts. Additionally, the Agency may terminate the swaps at market value at any time.

Basis Risk

The Agency incurs the potential risk that the variable interest payments on its bonds will not equal the variable interest receipts from its swaps. This basis risk exists because the Agency pays a variable rate on its bonds based on the weekly tax-exempt BMA rate but under the terms of its swaps receives a variable rate based upon the one-month, taxable LIBOR rate. Basis risk will vary over time due to inter-market conditions. As of June 30, 2004, the interest rate on the Agency's variable rate debt was 1.10% per annum while the interest rate on the swaps was 0.96% per annum. In order to reduce the cumulative effects of basis risk, the variable rate determination structure for interest receipts within the swap is based upon a regression analysis of the long-term relationship between these two interest rate indices.

Tax Risk

The structure of the variable interest rate payments the Agency receives from its swap contracts are based upon the historical long-term relationship between taxable and tax-exempt short-term interest rates. Tax risk represents a risk that may arise due to a change in the tax code that may fundamentally alter this relationship. The Agency has chosen to assume this risk because it was economically unfeasible to transfer to the swap counterparty.

Accounts Payable and Other Liabilities

Accounts payable and other liabilities at June 30, 2004 consist of the following (in thousands):

Funds	Arbitrage Rebate Payable to the Federal Government	Accrued Salaries, Compensated Absences and Employee Benefits	Other Liabilities and Accounts Payable	Total
General Reserve	$ —	$1,904	$1,765	$ 3,669
Rental Housing	404	—	14	418
Residential Housing Finance	1,054	—	1,294	2,348
Single Family	8,674	—	43	8,717
State Appropriated	—	—	754	754
Federal Appropriated	—	—	1,966	1,966
Agency-wide Totals	$10,132	$1,904	$5,836	$17,872

The amount of arbitrage rebate payable that is not due within one year in Rental Housing is $.404 million, in Residential Housing Finance is $1.054 million and in Single Family is $5.059 million, for a total of $6.517 million.

Interfund Balances

Interfund balances displayed as Interfund Payable (Receivable) at June 30, 2004 consist of the following (in thousands):

	Funds	Due from General Reserve	Rental Housing	Residential Housing Finance	Single Family	State Appropriated	Federal Appropriated	Total
Due to	General Reserve	$ —	$ 5	$ —	$ —	$109	$214	$ 328
	Rental Housing	—	—	—	—	—	—	—
	Residential Housing Finance	4,036	21,145	—	—	—	—	25,181
	Single Family	—	—	—	—	—	—	—
	State Appropriated	—	—	390	1,167	—	—	1,557
	Federal Appropriated	—	—	—	—	—	—	—
	Agency-wide Totals	$4,036	$21,150	$390	$1,167	$109	$214	$27,066

The $21.145 million due to Residential Housing Finance reflects advances made to Rental Housing in fiscal 1997 and accrued interest on those advances. The advances were made to take advantage of economically favorable conditions for optionally redeeming bonds in Rental Housing. Repayment of the advances continues according to the original debt repayment schedule. The portion that will not be repaid within one year is $20.182 million.

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

Interfund Transfers

Interfund transfers recorded in Interfund Payable (Receivable) for the year ended June 30, 2004 consist of the following (in thousands):

	Funds	Transfer from General Reserve	Rental Housing	Residential Housing Finance	Single Family	State Appropriated	Federal Appropriated	Total
Transfer to	General Reserve-administrative reimbursement	$—	$1,491	$3,383	$ 4,653	$4,188	$665	$14,380
	Rental Housing	—	—	—	—	—	—	—
	Residential Housing Finance	—	1,676	—	64,236	209	—	66,121
	Single Family	—	—	—	—	—	—	—
	State Appropriated	—	—	—	334	—	—	334
	Federal Appropriated	—	620	—	—	—	—	620
	Agency-wide Totals	$—	$3,787	$3,383	$69,223	$4,397	$665	$81,455

Interfund transfers recorded in Interfund Payable (Receivable) are used to move loan payments that were deposited for administrative convenience in a fund not holding the loans, to make payments for administrative reimbursements due the General Reserve from the other funds, to pay for loans transferred between funds, and to move payments from Rental Housing to Residential Housing Finance due on outstanding loans between those funds.

Interfund Transfers (continued)

Interfund transfers recorded in Non-operating Transfer of Assets Between Funds for the year ended June 30, 2004, consist of the following (in thousands):

		Transfer from						
	Funds	General Reserve	Rental Housing	Residential Housing Finance	Single Family	State Appropriated	Federal Appropriated	Total
Transfer to	General Reserve	$ —-	$—	$ —	$ —	$—	$—	$ —
	Rental Housing	—	—	358	—	—	—	358
	Residential Housing Finance	2,856	—	—	11,918	—	—	14,774
	Single Family	—	—	—	—	—	—	—
	State Appropriated	—	—	—	—	—	—	—
	Federal Appropriated	—	—	—	—	—	—	—
	Agency-wide Totals	$2,856	$—	$358	$11,918	$—	$—	$15,132

Interfund transfers recorded in Non-operating Transfer of Assets Between Funds normally result from bond sale contributions to new debt issues in other funds, the transfer of assets to maintain the Housing Endowment Fund requirement and periodic transfers from the bond funds of assets in excess of bond resolution requirements.

Net Assets

Restricted by Bond Resolution

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

Restricted by Covenant

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

In order to provide financial security for the Agency's bondholders, and to provide additional resources for housing loans to help meet the housing needs of low- and moderate-income Minnesota residents, the Agency's Board adopted the investment guidelines in the following table. These guidelines are periodically evaluated in consideration of changes in the economy and in the Agency's specific risk profile. The following table describes total net assets restricted by covenant, including the balances to be maintained according to the Agency's Board guidelines, as of June 30, 2004, in thousands.

Net Assets (continued)

Net Assets — Restricted By Covenant	Certain Balances Maintained According to Agency's Board Guidelines	Unrealized Appreciation in Fair Market Value of Investments	Total Net Assets Restricted by Covenant
Housing Endowment Fund (Pool 1), General Reserve			
An amount equal to 2% of gross loans outstanding (excluding loans reserved 100% and appropriated loans) will be invested in short term, investment grade paper at market interest rates	$ 28,245	$ —	$ 28,245
Unrealized appreciation in fair market value of investments	—	96	96
Subtotal, Housing Endowment Fund (Pool 1), General Reserve	28,245	96	28,341
Housing Investment Fund (Pool 2), Residential Housing Finance			
An amount equal to 5% of bonds outstanding less the Housing Endowment Fund (Pool 1) will be invested in intermediate to long term, investment grade housing loans, as defined by the Agency, at interest rates which could be up to 3% below market.	64,620	—	64,620
Unrealized appreciation in fair market value of investments	—	698	698
Subtotal, Housing Investment Fund (Pool 2), Residential Housing Finance	64,620	698	65,318
Housing Affordability Fund (Pool 3), Residential Housing Finance			
Funds in excess of 5% of bonds may be used for administration of housing programs, contributions to bond issues, early bond redemptions, and low interest rate loans with higher than ordinary risk factors	183,598	—	183,598
Unrealized appreciation in fair market value of investments	—	200	200
Subtotal, Housing Affordability Fund (Pool 3), Residential Housing Finance	183,598	200	183,798
Agency-wide Total	$276,463	$994	$277,457

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

In connection with self-insuring certain single family loans, the Agency has agreed to maintain General Reserve net assets of at least 125% of the Single Family Mortgage bond resolution insurance reserve. The amount aggregated $10.718 million at June 30, 2004.

Net Assets (continued)

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.

The Agency's pension contribution to the System for the year ending June 30, 2004 was $435 thousand.

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

Schedule of Funding Progress
(dollars in thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Actual Covered Payroll (Previous FY)	UAAL as a % of Covered Payroll
07/01/03	$7,757,292	$7,830,671	$ 73,379	99.06%	$2,009,975	3.65%
07/01/02	7,673,028	7,340,397	(332,631)	104.53	1,915,350	(17.37)
07/01/01	7,366,673	6,573,193	(793,480)	112.07	1,834,042	(43.26)

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
2003	8.34%	$2,009,975	$83,850	$83,782	$80,399	95.96%
2002	6.79	1,915,350	79,487	50,565	76,614	151.52
2001	7.12	1,834,042	74,364	56,220	73,362	130.49

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

The information presented is as of July 1, 2003, which is the latest actuarial information available.

Defined Benefit Pension Plan (continued)

The above summarizes the defined benefit pension plan. Please refer to the June 30, 2003, 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, 2004, the Agency had committed the following amounts for the purchase or origination of future loans or other housing assistance amounts (in thousands):

Funds	Amount
General Reserve	$ —
Rental Housing	8,640
Residential Housing Finance	127,001
Single Family	—
State Appropriated	92,153
Federal Appropriated	18,468
Agency-wide Totals	$246,262

The Agency has cancelable lease commitments for office facilities and parking on a long-term basis. Lease expense for the fiscal year ended June 30, 2004 was $.916 million. Commitments for future minimum lease payments under cancelable leases for office facilities and parking are (in thousands):

	Fiscal Year:					
	2005	2006	2007	2008	2009	Total
Amount:	$943	$967	$983	$913	$858	$4,664

The Agency has in place a $15 million revolving line of credit with Wells Fargo Bank, N.A. that expires on December 31, 2004 and may be renewed annually for additional one-year periods through December 31, 2007. The line of credit agreement requires the Agency to maintain certain asset levels and meet certain reporting requirements. At June 30, 2004 there was no balance outstanding. The line of credit activity for the year ended June 30, 2004, is summarized as follows (in thousands):

Beginning Balance	Draws	Repayments	Ending Balance
$8,563	$6,470	$(15,033)	$0

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

Subsequent Events

On May 27, 2004 the Board of the Agency approved series resolutions authorizing the issuance of $102,345,000 bonds for the purpose of providing funds for certain of the Agency's homeownership programs. The Residential Housing Bonds, 2004 Series E, 2004 Series F, and 2004 Series G were delivered on July 22, 2004.

On June 24, 2004 the Board of the Agency approved the remarketing of $38,610,000 convertible option Residential Housing Bonds 2003 Series H for the purpose of providing funds for certain of the Agency's homeownership programs. The Residential Housing Bonds, 2003 Series H were remarketed on July 22, 2004.

On June 24, 2004 the Board of the Agency approved series resolutions authorizing the issuance of $41,510,000 convertible option bonds. The Residential Housing Bonds, 2004 Series H were delivered on July 22, 2004.

Subsequent Events (continued)

The Agency called for early redemption subsequent to June 30, 2004 the following bonds:

Program Funds	Retirement Date	Original Par Value
Residential Housing Finance	July 1, 2004	$ 8,290,000
Single Family	July 1, 2004	64,655,000
Rental Housing	July 26, 2004	1,640,000
Residential Housing Finance	August 20, 2004	1,670,000
Single Family	August 20, 2004	47,620,000
Rental Housing	September 16, 2004	870,000

MINNESOTA HOUSING FINANCE AGENCY
Supplementary Information (Unaudited)
General Reserve and Bond Funds
Five Year Financial Summary (in thousands)
Fiscal Years 2000 – 2004

		2000	2001	2002	2003	2004
Loans Receivable, net	Multifamily programs	$ 392,010	$ 353,893	$ 337,087	$ 348,196	$ 362,870
	Homeownership programs	1,226,528	1,228,105	1,212,436	1,009,937	932,777
	Home improvement programs	99,770	108,860	104,537	92,345	89,157
	Total	$1,718,308	$1,690,858	$1,654,060	$1,450,478	$1,384,804
Bonds Payable, net	Multifamily programs	$ 337,013	$ 325,314	$ 267,739	$ 246,701	$ 216,928
	Homeownership programs	1,637,944	1,640,348	1,668,449	1,579,978	1,607,661
	Home improvement programs	—	—	—	20,000	20,000
	Total	$1,974,957	$1,965,662	$1,936,188	$1,846,679	$1,844,589
Loans purchased or originated in year	Multifamily programs	$ 25,419	$ 14,143	$ 18,341	$ 58,607	$ 50,509
	Homeownership programs	165,703	165,633	229,603	145,748	216,109
	Home improvement programs	29,965	40,027	37,281	35,391	34,981
	Total	$ 221,087	$ 219,803	$ 285,225	$ 239,746	$ 301,599
Net Assets	Total net assets	$ 536,748	$ 582,674	$ 612,361	$ 648,459	$ 666,978
	Percent of total assets	20.0%	21.5%	22.6%	24.6%	25.2%
Revenues over Expenses	Revenues over expenses for the year(1)	$ 19,452	$ 42,023	$ 29,687	$ 36,098	$ 18,519

Notes:

(1) Includes Administrative Reimbursement revenue received from State Appropriated fund of $5,618 in 2002, $4,497 in 2003, and $4,131 in 2004. This revenue item was included in revenues over expenses beginning in 2002 due to GASB 34 presentation requirements.

MINNESOTA HOUSING FINANCE AGENCY
Supplementary Information (Unaudited)
Statement of Net Assets (in thousands)
General Reserve and Bond Funds
June 30, 2004 (with comparative totals for June 30, 2003)

			Bond Funds		
		General Reserve	Rental Housing	Residential Housing Finance	Single Family
Assets	Cash and cash equivalents	$ 4,807	$ 43,273	$ 629,917	$261,992
	Investment securities	115,155	38,771	142,893	12,535
	Loans receivable, net	—	228,622	633,363	522,819
	Interest receivable on loans	—	1,697	2,887	2,811
	Interest receivable on investments	1,128	1,141	913	243
	Mortgage insurance claims receivable	—	—	6	757
	Real estate owned	—	—	251	1,342
	Capital assets, net	1,774	—	—	—
	Other assets	1,138	8	498	5
	Total assets	$124,002	$313,512	$1,410,728	$802,504
Liabilities	Bonds payable, net	$ —	$216,928	$ 933,993	$693,668
	Interest payable	—	4,945	12,141	19,197
	Accounts payable and other liabilities	3,669	418	2,348	8,717
	Interfund payable (receivable)	3,708	21,150	(24,791)	1,167
	Funds held for others	86,510	—	—	—
	Total liabilities	93,887	243,441	923,691	722,749
	Commitments and contingencies				
Net Assets	Restricted by bond resolution	—	70,071	237,921	79,755
	Restricted by covenant	28,341	—	249,116	—
	Invested in capital assets	1,774	—	—	—
	Total net assets	30,115	70,071	487,037	79,755
	Total liabilities and net assets	$124,002	$313,512	$1,410,728	$802,504

2004 Total General Reserve and Bond Funds	2003 Total General Reserve and Bond Funds
$ 939,989	$ 845,334
309,354	327,971
1,384,804	1,450,478
7,395	8,032
3,425	4,253
763	584
1,593	899
1,774	733
1,649	1,755
$2,650,746	$2,640,039
$1,844,589	$1,846,679
36,283	43,464
15,152	13,768
1,234	1,325
86,510	86,344
1,983,768	1,991,580
387,747	382,253
277,457	265,473
1,774	733
666,978	648,459
$2,650,746	$2,640,039

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, 2004 (with comparative totals for the year ended June 30, 2003)

			Bond Funds		
		General Reserve	Rental Housing	Residential Housing Finance	Single Family
Revenues	Interest earned on loans	$ —	$16,982	$ 31,989	$ 46,325
	Interest earned on investments	617	3,098	15,499	18,034
	Administrative reimbursement	14,349	—	—	—
	Fees earned and other income	7,631	933	319	—
	Unrealized gains (losses) on securities	(2,042)	(1,473)	(2,735)	(2,772)
	Total revenues	20,555	19,540	45,072	61,587
Expenses	Interest	—	15,196	23,064	51,254
	Loan administration and trustee fees	—	246	2,651	2,405
	Administrative reimbursement	—	1,496	3,383	4,653
	Salaries and benefits	13,131	—	—	—
	Other general operating	5,782	—	252	—
	Reduction in carrying value of certain low interest rate deferred loans	—	(226)	2,718	—
	Provision for loan losses	—	897	1,255	78
	Total expenses	18,913	17,609	33,323	58,390
	Revenues over (under) expenses	1,642	1,931	11,749	3,197
Other changes	Non-operating transfer of assets between funds	(4,036)	358	15,596	(11,918)
	Change in net assets	(2,394)	2,289	27,345	(8,721)
Net Assets	Total net assets, beginning of year	32,509	67,782	459,692	88,476
	Total net assets, end of year	$30,115	$70,071	$487,037	$ 79,755

2004 Total General Reserve and Bond Funds	2003 Total General Reserve and Bond Funds
$ 95,296	$109,067
37,248	35,943
14,349	14,372
8,883	8,909
(9,022)	5,394
146,754	173,685
89,514	101,023
5,302	5,948
9,532	9,174
13,131	13,124
6,034	6,543
2,492	(331)
2,230	2,106
128,235	137,587
18,519	36,098
—	—
18,519	36,098
648,459	612,361
$666,978	$648,459

MINNESOTA HOUSING FINANCE AGENCY
Supplementary Information (Unaudited)
Statement of Cash Flows (in thousands)
General Reserve and Bond Funds
Year ended June 30, 2004 (with comparative totals for the year ended June 30, 2003)

			Bond Funds		
		General Reserve	Rental Housing	Residential Housing Finance	Single Family
Cash flows from operating activities	Principal repayments on loans	$ —	$ 27,622	$ 97,365	$ 234,931
	Investment in loans	—	(21,860)	(254,070)	(25,669)
	Interest received on loans	—	16,815	31,403	43,818
	Other operating	—	—	(252)	—
	Fees and other income received	7,628	933	427	—
	Salaries, benefits and vendor payments	(18,391)	(249)	(2,262)	(2,419)
	Administrative reimbursement from funds	14,379	(1,491)	(3,383)	(4,653)
	Interest transferred to funds held for others	(2,649)	—	—	—
	Deposits into funds held for others	35,907	—	10	—
	Disbursements made from funds held for others	(35,747)	—	(4)	—
	Interfund transfers and other assets	(352)	—	222	(333)
	Net cash provided (used) by operating activities	775	21,770	(130,544)	245,675
Cash flows from noncapital financing activities	Proceeds from sale of bonds	—	13,485	727,941	23,000
	Principal repayment on bonds	—	(43,740)	(313,223)	(408,710)
	Interest paid on bonds and notes	—	(12,824)	(17,226)	(59,488)
	Financing costs paid related to bonds issued	—	(315)	(4,117)	(294)
	Interest paid/received between funds	—	(1,541)	1,541	—
	Principal paid/received between funds	—	(135)	135	—
	Premium paid on redemption of bonds	—	(392)	—	(1,026)
	Agency contribution to program funds	—	358	11,560	(11,918)
	Transfer of cash between funds	(2,856)	—	2,856	—
	Net cash provided (used) by noncapital financing activities	(2,856)	(45,104)	409,467	(458,436)
Cash flows from investing activities	Investment in real estate owned	—	—	(49)	(692)
	Interest received on investments	4,003	3,338	14,668	15,615
	Proceeds from sale of mortgage insurance claims/real estate owned	—	—	708	5,885
	Proceeds from maturity, sale or transfer of investment securities	40,080	32,729	142,136	20,798
	Purchase of investment securities	(39,343)	(29,155)	(151,060)	(5,753)
	Purchase of loans between funds	—	—	(64,236)	64,236
	Net cash provided (used) by investing activities	4,740	6,912	(57,833)	100,089
	Net increase (decrease) in cash and cash equivalents	2,659	(16,422)	221,090	(112,672)
Cash and cash equivalents	Beginning of year	2,148	59,695	408,827	374,664
	End of year	$ 4,807	$ 43,273	$ 629,917	$ 261,992

2004 Total General Reserve and Bond Funds	2003 Total General Reserve and Bond Funds
$ 359,918	$ 439,075
(301,599)	(239,746)
92,036	108,770
(252)	(628)
8,988	8,731
(23,321)	(24,649)
4,852	5,494
(2,649)	(3,468)
35,917	34,451
(35,751)	(42,385)
(463)	(66)
137,676	285,579
764,426	446,823
(765,673)	(538,270)
(89,538)	(99,038)
(4,726)	(2,066)
—	—
—	—
(1,418)	(1,103)
—	—
—	—
(96,929)	(193,654)
(741)	(429)
37,624	39,379
6,593	4,034
235,743	280,742
(225,311)	(329,935)
—	—
53,908	(6,209)
94,655	85,716
845,334	759,618
$ 939,989	$ 845,334

(Continued)

MINNESOTA HOUSING FINANCE AGENCY
Supplementary Information (Unaudited)
Statement of Cash Flows (in thousands)
General Reserve and Bond Funds (continued)
Year ended June 30, 2004 (with comparative totals for the year ended June 30, 2003)

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

	General Reserve	Bond Funds: Rental Housing	Bond Funds: Residential Housing Finance	Bond Funds: Single Family
Revenues over expenses	$ 1,642	$ 1,931	$ 11,749	$ 3,197
Adjustments to reconcile revenues over (under) expenses to net cash provided (used) by operating activities:				
Amortization of premiums (discounts) and fees on loans	—	(164)	326	(3,626)
Depreciation	481	—	—	—
Loss on disposal of fixed assets	—	—	—	—
Realized gains on sale of securities, net	(80)	(134)	(159)	(1,650)
Unrealized losses (gains) on securities, net	2,042	1,473	2,735	2,772
Provision for loan losses	—	897	1,255	78
Reduction in carrying value of certain low interest rate and/or deferred loans	—	(226)	2,718	—
Capitalized interest on loans and real estate owned	—	(73)	(44)	(420)
Interest earned on investments	(537)	(3,141)	(16,181)	(16,619)
Interest expense on bonds and notes	—	15,196	23,064	51,254
Changes in assets and liabilities:				
Decrease (increase) in loans receivable, excluding loans transferred between funds	—	5,762	(156,705)	209,262
Decrease (increase) in interest receivable on loans	—	70	(867)	1,434
Increase in arbitrage rebate liability	—	177	841	340
Interest transferred to funds held for others	(2,649)	—	—	—
Increase (decrease) in accounts payable	41	(4)	496	(15)
Increase (decrease) in interfund payable, affecting operating activities only	30	5	207	(333)
Increase (decrease) in funds held for others	160	—	6	—
Other	(355)	1	15	1
Total	(867)	19,839	(142,293)	242,478
Net cash provided (used) by operating activities	$ 775	$21,770	$(130,544)	$245,675

2004 Total General Reserve and Bond Funds	2003 Total General Reserve and Bond Funds
$ 18,519	$ 36,098
(3,464)	(1,369)
481	539
—	571
(2,023)	(1,187)
9,022	(5,394)
2,230	2,106
2,492	(331)
(537)	(348)
(36,478)	(36,201)
89,514	101,023
58,319	199,329
637	1,320
1,358	1,545
(2,649)	(3,468)
518	(753)
(91)	738
166	(7,934)
(338)	(705)
119,157	249,481
$137,676	$285,579

Other Information

Board of Directors

Michael Finch, Ph.D., Chair
Member

Peter Bernier, Vice Chair
Member

The Honorable Patricia Anderson
Ex officio member
State Auditor, State of Minnesota

Lee Himle
Member

Marina Muñoz Lyon
Member

Betty Lou Berg
Member

Paul Gaston
Member

Legal and Financial Services

Bond Trustee
Wells Fargo Bank, N.A.

Bond Paying Agent
Wells Fargo Bank, N.A.

Bond Counsel
Dorsey & Whitney LLP, Minneapolis

Financial Advisor
Caine Mitter & Associates

Underwriting Team
UBS Financial Services Inc.
Piper Jaffray & Co.
RBC Dain Rauscher Inc.

Certified Public Accountants
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, status with regard to receipt of public assistance, creed, marital status, sexual orientation, familial status, national origin, sex, religion, age, or disability in employment or the provision of services or resources. Information contained in this publication will be made available in an alternative format upon request.

APPENDIX C

SUMMARY OF CONTINUING DISCLOSURE AGREEMENT

SUMMARY OF CONTINUING DISCLOSURE AGREEMENT

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

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 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 Bond (including persons or entities holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of the 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 a 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, not later than nine months after the close of each fiscal year, commencing with the fiscal year ended June 30, 2005, provide to each Repository and to the Trustee, an Agency Annual Report in compliance with the requirements of Section 4 of this Disclosure Agreement.

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

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

Audited financial statements of the Agency for its prior fiscal year reporting on the statements of net assets of the Agency's Rental Housing Program Funds and the General Reserve Account of the Housing Development Fund and related statements of revenues and expenses and changes in net assets 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.

The Agency will also update the operating and financial data contained in Appendix A hereto.

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 generally accepted accounting principles, 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 C 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 supersedes the Trustee duties under the Resolution with respect to notices of redemption or notices in connection with defeasance of Series C 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 C 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, and assuming the Rule is applicable to the Series C Bonds.

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 equitable proceedings unless Beneficial Owners of Bonds representing at least 25% aggregate principal amount of outstanding Bonds shall join in such proceedings.

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

Alternative Filing Systems. To the extent Agency filings or notices are required to be made to any Repository under this Disclosure Agreement, the Agency reserves the right to use www.DisclosureUSA.org currently maintained by the Municipal Advisory Council of Texas, or any similar system that is acceptable to the Securities and Exchange Commission.

APPENDIX D

SUMMARY OF CERTAIN PROVISIONS
OF THE BOND RESOLUTION

SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION

The Bond Resolution contains various covenants and security provisions, certain of which are summarized below. The summary does not purport to be comprehensive or definitive and is subject to all of the terms and provisions of the Bond Resolution, to which reference is hereby made, copies of which are available from the Agency or the Trustee.

Resolution Constitutes Contract with Trustee and Bondholders

Upon acceptance by the Trustee of the trusts created in the Bond Resolution and upon the purchase of Bonds by a Holder thereof, the Bond Resolution and applicable Series Resolution shall constitute a contract of the Agency with the Trustee and the Bondholders. The pledge made and security interests granted in the Bond Resolution are for the equal benefit, protection and security of all such Bondholders; all Bonds shall be of equal rank without preference, priority or distinction except as expressly provided or permitted in the Bond Resolution. The Agency covenants that it will cause to be deposited with the Trustee all proceeds of Bonds, all Mortgages, Mortgage Loans, and other securities purchased from Bond Proceeds and all income thereon. The pledge of the Agency is valid and binding from the time when made and all Mortgages, Mortgage Loans, securities and income thereon pledged and received by the Agency shall be subject to the lien thereof. The Agency pledges its full faith and credit for payment of principal, interest, and premium, if any, on the Bonds; the Bonds are a general obligation of the Agency. The State has pledged to and agreed with the Bondholders that it will not limit or alter the rights vested in the Agency nor impair the rights or remedies of the Bondholders until the Bonds, together with interest due, are fully paid.

Definitions

The following are definitions of certain terms used in the Bond Resolution and in this Official Statement (but not otherwise defined herein).

Accreted Value: for any Capital Accumulator Bond or Bonds, as of any date, the value (which may be rounded to the nearest dollar) resulting from the compounding of interest on the original principal amount and accretion thereof to principal on each prior Interest Payment Date at the approximate yield expressed in the Bond and provided in the applicable Series Resolution.

Bond Requirement: as of any particular date of calculation, the sum of (i) that amount of the interest to become due on each Series of Outstanding Bonds at its next Interest Payment Date the deposit of which, once each month between that and the last such Interest Payment Date (or if none, since the Issue Date), would produce a sum sufficient to pay such interest, (ii) that amount of the Principal Installment due on each Series of Outstanding Bonds at its next Principal Installment Date, the deposit of which, once each month between that and the last such Principal Installment Date (or if none, once each month for a period of twelve months prior to the next Principal Installment Date), would produce a sum sufficient to pay such Principal Installment; (iii) any amount referred to in clause (i) and (ii) which has not been deposited in the Bond Fund in any month preceding the date of calculation; (iv) any Principal Installment and interest due and unpaid before the date of calculation; and (v) interest accrued on any such Principal Installment and (to the extent lawful) on any such interest, at the same rate as that borne by the Principal Installment before its maturity.

Capital Accumulator Bond: any Bond the interest on which is not currently payable on Interest Payment Dates during each year of its term (or portion of its term) but accrues and is accreted to principal on each Interest Payment Date and is payable as part of the Accreted Value of the Bond at maturity, or at a prior date on which the Bond is duly called for redemption, as provided in the applicable Series Resolution.

Current Interest Bond: any Bond the interest on which is payable on Interest Payment Dates during each year of its term (or portion of its term), or to a prior date on which the Bond is duly called for redemption, as provided in the applicable Series Resolution.

Debt Service Reserve Requirement: as of any particular date of computation, an amount of money (or cash equivalent available under a letter of credit, insurance policy, surety bond or similar security instrument issued by an institution whose debt obligations at the time of such issuance are rated as high as or higher than the Bonds by a nationally recognized bond rating agency) equal to the sum of amounts computed for each Series of Outstanding Bonds, each in accordance with the applicable Series Resolution.

Development: a specific improvement or structure constituting residential housing as defined in the Act, containing units for possession pursuant to a leasehold estate or cooperative ownership, and financed in whole or in part by the issuance of Bonds or Notes.

Escrow Payment: any payment made in order to obtain or maintain mortgage insurance and fire and other hazard insurance, including payments for any Federal, state, local or private program intended to assist in providing Mortgages, and any payments required to be made with respect to Mortgages for taxes or other governmental charges or other similar charges to a Mortgagor customarily required to be escrowed, and payments or charges constituting construction or operating contingency, performance or completion or replacement reserves required pursuant to the applicable Mortgage Loan or any Subordinate Mortgage Loan.

Expense Requirement: such amount of money as may from time to time by Series Resolution or Supplemental Bond Resolution of the Agency be determined to be necessary for the payment of costs and expenses of the Agency pursuant to the Program (other than costs and expenses properly payable from a Cost of Issuance Account).

Interest Payment Date: each date on which interest on any Series of Bonds is required to be paid under the applicable Series Resolution.

Investment Obligation: any of the following including put and call options in future contracts traded on a contract market designated and regulated by a federal agency, which at the time are legal investments for Fiduciaries under the laws of the State for moneys held hereunder which are then proposed to be invested therein: (i) direct general obligations of the United States of America; (ii) obligations the payment of the principal of and interest on which, in the opinion of the Attorney General of the United States, is unconditionally guaranteed by the United States; (iii) Bonds, debentures, participation certificates, notes or other debt issued by any of the following: Bank for Cooperatives, Federal Financing Bank, Federal Land Banks, Federal Home Loan Banks, Federal Intermediate Credit Banks, Federal National Mortgage Association, Export-Import Bank of the United States, Student Loan Marketing Association, Farmers Home Administration, Federal Home Loan Mortgage Corporation or Government National Mortgage Association, or any other agency or corporation which has been or may hereafter be created by or pursuant to an Act of the Congress of the United States as an agency or instrumentality thereof or sponsored thereby; (iv) direct and general obligations of any state within the United States or of any political subdivision of the State of Minnesota, provided that at the time of purchase such obligations are rated in either of the two highest rating categories by a nationally recognized bond rating agency; (v) interest-bearing deposit accounts in savings and loan associations or in state, national or foreign banks (including the Trustee and any Paying Agent), provided that either said deposits are insured by the Federal Deposit Insurance Corporation or said deposits are secured by obligations described in clauses (i) through (iii) above, or at the time the purchase is made the debt obligations of the depository are rated as high or higher than the Bonds by a nationally recognized bond rating agency; (vi) bankers' acceptances drawn on and accepted by commercial banks whose debt obligations at the time the purchase is made are rated as high or higher than the Bonds by a nationally recognized bond rating agency; (vii) commercial paper issued by United States corporations or their Canadian subsidiaries rated at the time the purchase is made in the highest rating category for commercial paper by a nationally recognized bond rating agency and maturing in 270 days or less; (viii) 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 (i) through (iii) of this sentence; (ix) guaranteed investment contracts or similar deposit agreements with insurance companies with a claims paying rating from a nationally recognized rating agency at the time the contract or agreement is made at least equal to the rating of the Bonds, or with other financial institutions or corporations provided, at the time the contract or agreement is made, the debt obligations of any such financial institution or corporation are rated as high or higher than the Bonds by a nationally recognized bond rating agency or such contracts or agreements are secured by obligations described in clauses (i) through (iii) above; (x) shares in an investment company registered under the Federal Investment Company Act of 1940 whose shares are registered under the Federal Securities Act of 1933, or shares of 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 $50,000,000, under the supervision and regulation of the Comptroller of the Currency pursuant to 12 C.F.R. 9, or any successor regulation, and whose only investments are qualified investments described in clauses (i) through (iii) of this Section, (xi) notes, Bonds, debentures or other debt issued or guaranteed by domestic corporations, provided that at the time of purchase such obligations are rated in either of the two highest rating categories by a nationally recognized bond rating agency; and (xii) notes, Bonds, debentures or other debt issued by the World Bank or the Inter-American Development Bank, provided that at the time of purchase such obligations are rated in either of the two highest rating categories by a nationally recognized bond rating agency.

Mortgage: a mortgage deed, deed of trust, or other instrument, which, except as otherwise provided in the Bond Resolution, shall constitute a first lien in the State on improvements and real property in fee simple, or on a leasehold under a lease having a remaining term which, at the time the Mortgage is acquired, does not expire for at least that number of years beyond the maturity date of the Mortgage Loan or Subordinate Mortgage Loan secured by such Mortgage which is equal to the number of years remaining until the maturity date of the Mortgage Loan or Subordinate Mortgage Loan.

Mortgage Loan: a loan by the Agency to a Mortgagor for the financing and/or refinancing of a Development for the purposes set forth in Section 101 of the Bond Resolution, secured by a Mortgage on the Development.

Mortgagor: a natural person, a public or private corporation, a partnership, a joint venture or other organization or entity, to the extent permitted by the Act and the rules of the Agency thereunder (including the Agency or any corporation, agency or instrumentality created or controlled by the Agency).

Outstanding: a reference as of any particular time to all Bonds theretofore delivered except (i) any Bond canceled by the Trustee, or proven to the satisfaction of the Trustee to have been canceled by the Agency or by any other Fiduciary, at or before that time, and (ii) any Bond for the payment or redemption of which either (a) money equal to the principal amount or Redemption Price thereof, as the case may be, with interest to the date of maturity or redemption date, or (b) Investment Obligations or money in the amounts, or the maturities and otherwise as described and required under the provisions of paragraph (B) or (D) of Section 1201 of the Bond Resolution, has been deposited with one or more Fiduciaries in trust (whether upon or prior to the maturity or redemption date of the Bond) and except in the case of a Bond to be paid at maturity, of which notice of redemption has been given or provided for in accordance with Article VII therein, and (iii) any Bond in lieu of or in substitution for which another Bond has been delivered pursuant to Section 605, 607 or 906 of the Bond Resolution.

Prepayment: any money received from a payment of principal on a Mortgage Loan or Subordinate Mortgage Loan in excess of the scheduled payments of principal then due, or from the sale of a Mortgage Loan or Subordinate Mortgage Loan pursuant to Section 313 of the Bond Resolution, other than money constituting a Recovery Payment.

Principal Installment: as of any particular date of calculation, an amount equal to the sum of (i) the principal amount of Outstanding Current Interest Bonds which mature on a single future date, reduced by the aggregate amount of any Sinking Fund Installments payable before that date toward the retirement of such Outstanding Current Interest Bonds, plus (ii) the amount of any Sinking Fund Installment payable on said future date toward the retirement of such Outstanding Current Interest Bonds, plus (iii) the Accreted Value, as of the same future date, of Capital Accumulator Bonds which mature or are required to be redeemed as a Sinking Fund Installment on such date.

Program: the Agency's program of making Mortgage Loans, including the payment when due of principal of and redemption premium, if any, and interest on Notes, for the purposes specified in Section 101 of the Bond Resolution.

Recovery Payment: any money received or recovered by the Agency, in excess of the expenses necessarily incurred by the Agency in collection thereof, from (i) the sale or other disposition of a Development acquired by the Agency, or (ii) condemnation of a Development or part thereof, or (iii) other proceedings taken in the event of default by the Mortgagor, or (iv) the sale or other disposition of a Mortgage in default for the purpose of realizing on the Agency's interest therein, or (v) mortgage insurance or guaranty or hazard insurance.

Redemption Price: when used with respect to a Bond or portion thereof, the principal amount of a Current Interest Bond or the Accreted Value of a Capital Accumulator Bond or any portion thereof plus the applicable premium, if any, payable upon redemption thereof in accordance with its terms.

Revenues: all payments, proceeds, rents, charges and other income derived by or for the account of the Agency from or related to the Program, including without limitation the scheduled amortization payments of principal of and interest on Mortgages (whether paid by or on behalf of the Mortgagor or occupants of the Development subject to the Mortgage), but not including Prepayments, Recovery Payments or Escrow Payments, and not including inspection, financing, application, commitment or similar fees or charges of the Agency which are included in the original principal amount of a Mortgage.

Sinking Fund Installment: any amount of money required by or pursuant to a Series Resolution as referred to in Section 202 of the Bond Resolution to be paid on a specified date by the Agency toward the retirement of any particular Term Bonds before their maturity.

Sinking Fund Installment Date: the date on which a Sinking Fund Installment is payable.

Subordinate Mortgage Loan: a Mortgage Loan, which may be junior and subordinate to other mortgage liens on a Development, made by the Agency pursuant to the authorization contained in Section 308 of the Bond Resolution.

Authorization of Bonds

In order to provide sufficient funds for the Program, Bonds of the Agency designated as Rental Housing Bonds are authorized by the Bond Resolution to be issued from time to time without limitation as to amount except as provided in the Bond Resolution or as may be limited by law, and shall be issued subject to the terms, conditions and limitations established in the Bond Resolution. The full faith and credit of the Agency is pledged for the security of the Bonds, including interest and redemption premiums thereon, and the Bonds are general obligations of the Agency, payable out of any of its moneys, assets or revenues, subject to the provisions of any other resolutions, indentures or state laws now or hereafter pledging and appropriating particular moneys, assets or revenues to particular notes or Bonds.

Other Obligations

(A) Except as provided in Article II of the Bond Resolution, the Agency covenants that it will not create or permit the creation of or issue any obligations or create any additional indebtedness which will be secured by a charge or lien on the Revenues or will be payable from any of the Funds or Accounts established and created by or pursuant to the Bond Resolution, including the Debt Service Reserve Fund. The foregoing provision shall not be construed as prohibiting the Agency from entering into hedging transactions, such as interest rate swaps, in connection with the issuance of any Series of Bonds, or in connection with the payment of any Series of Outstanding Bonds.

(B) The Agency expressly reserves the right to adopt one or more additional bond or note resolutions and reserves the right to issue other obligations so long as they are not a charge or lien prohibited by paragraph (A) of this Section of the Bond Resolution.

Pledge of the Resolution

The Agency in the Bond Resolution covenants that it will cause to be paid to and deposited with the Trustee, or to its credit with Depositories designated by the Agency, and pledges and grants to the Trustee a security interest in, all proceeds of Bonds, all Mortgages and Mortgage Loans and other securities made and purchased from such proceeds (or from the proceeds of Notes paid from the proceeds of Bonds), and all income and receipt therefrom. This pledge is intended to be valid and binding from the time when made, and the Bond proceeds, Mortgages, Mortgage Loans, other securities, income and receipts pledge and hereafter received by the Agency are immediately to be subject to the lien thereof without any physical delivery or further act, and the lien of such pledge is intended to be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the Agency, whether or not such parties have notice thereof.

Custody and Application of Bond Proceeds

Each Series Resolution authorizing the issuance of a Series of Bonds is required to specify the purposes for which the proceeds of such Series of Bonds may be used and to provide for the disposition of the proceeds thereof. Purposes for which Bonds may be issued are (a) the making of Mortgage Loans, (b) the financing of Mortgage Loans previously made from the proceeds of Notes, (c) the refunding of Outstanding Bonds, and (d) incident to these purposes, the deposit of amounts determined by or pursuant to the Bond Resolution to be credited and paid into the Funds and Accounts referred to in the Bond Resolution.

Note Accounts. Money in any Note Account shall be held by the Trustee and applied as directed by the applicable Series Resolution to the payment of Notes upon receipt of an Officer's Certificate identifying them by title, date of issuance and maturity or redemption, interest rate and the person to whom payment is to be made and the amount thereof. All interest and other income received from the deposit and investment of money in the Note Account pending application to the payment of Notes, unless otherwise directed by the applicable Series Resolution, shall be transferred as received to the Revenue Fund. Upon receipt of evidence satisfactory to the Trustee that such Notes have been paid and canceled, the Trustee shall transfer any balance remaining in the Note Account to the appropriate Project Account.

Project Account and Mortgage Loan Accounts. Money in each Project Account and Mortgage Loan Account shall be held by the Trustee or a Depository as directed by an Officer's Certificate. The Trustee shall create specific Mortgage Loan Accounts within the Project Account to finance specific Developments and the Trustee shall from time to time pay out or permit the designated Depository to pay out money in any Mortgage Loan Account held for the purpose of making a Mortgage Loan, upon receipt by the Trustee (or by the Depository with a copy to the Trustee) of an Officer's Certificate as to each payment or withdrawal, stating:

(i) the name of the Mortgagor to, and Development for, which the payment is to be made;

(ii) the amount to be paid; and

(iii) that this amount, together with all prior withdrawals from said Mortgage Loan Account and all prior advances made by the Agency to the Mortgagor on account of the Mortgage Loan, will not exceed in the aggregate the authorized amount of the Mortgage Loan.

All interest and other income from time to time received from the deposit and investment of money in the Project Account or any Mortgage Loan Accounts shall be transferred as received to the Trustee for deposit in the Revenue Fund.

Promptly upon the fulfilling of its commitment to make a Mortgage Loan to a Mortgagor, or upon revocation of the commitment before any substantial disbursement of funds thereunder, the Agency will deliver to the Depository and the Trustee an Officer's Certificate stating such fact and the amount of money, if any, remaining in the applicable Mortgage Loan Account, and directing this amount to be transferred by the Depository to the Trustee and deposited by the Trustee in a designated Project Account or in one or more designated Mortgage Loan Accounts or the Redemption Fund.

Mortgage Provisions and Conditions

Each Mortgage Loan financed from the proceeds of Bonds or of Notes paid from the proceeds of Bonds or from amounts made available from the Redemption Fund, and the Mortgage securing it, shall conform to the following terms, conditions, provisions and limitations as well as those stated in "Program Covenants" herein, except to the extent, if any, that a variance therefrom is required by an agency or instrumentality of the United States guaranteeing, insuring, or otherwise assisting in the payment of the Mortgage Loans. In addition, the Agency may, solely from Excess Revenues under the Bond Resolution which could otherwise be withdrawn therefrom pursuant to Section 404(5) thereof, make Subordinate Mortgage Loans with respect to a Development upon such terms and conditions as the Agency may deem appropriate, and without regard to the following provisions.

Lien. With respect to each Mortgage Loan, the Mortgage and complementary financing statements and other necessary documents shall be executed, recorded and filed in accordance with the requirements of existing laws, so as to create and constitute a valid first mortgage lien on the real property or leasehold interest in real property of the Mortgagor which is the site of the Development and improvements thereon for which the Mortgage Loan is made, and a valid security interest in all personal property acquired with proceeds of the Mortgage Loan and attached to or used in the operation of the Development.

Title. Before the disbursement of Bond proceeds to make the Mortgage Loan or to pay Notes the proceeds of which were used to make it, the Mortgagor shall have acquired marketable title in fee simple to the site of the Development, or a leasehold interest therein sufficient as the subject of a Mortgage as defined in Section 103 of the Bond Resolution, subject only to liens and encumbrances which in the reasonable judgment of the Agency do not materially affect its value or usefulness for the intended use; and there shall be deposited with the Trustee, or with an agent (which may be the Agency) authorized by the Trustee to receive on its behalf and transmit to the Trustee,

(i) the Mortgage; (ii) the note evidencing the Mortgage Loan; (iii) an acceptable title opinion or title insurance policy; and (iv) originals or photocopies of all other agreements and certificates of the Mortgagor relating to the Development.

Participation. The Agency may participate with another party or parties in the making of a Mortgage Loan for various purposes as set forth in the Resolution, if its mortgage lien and security interests, in proportion to its participation, is on a parity with or superior to that of all other parties, but the interest rate and time and rate of amortization of that part of the Mortgage Loan made by the Agency and that made by others need not be equal. The Agency may make an additional Mortgage Loan in certain circumstances on a parity of lien with the Mortgage then held by the Agency or subordinate thereto (but not junior or subordinate to a mortgage held by any other party unless permitted by the Resolution).

Prepayments. With respect to each Mortgage Loan, the Mortgage shall not permit a Prepayment of the Mortgage Loan without the consent of an Authorized Officer of the Agency, unless required by an agency of the United States as contemplated in this section; but the Agency may undertake in the Mortgage to give its consent if the following conditions with respect to Prepayment exist:

(a) the amount to be paid prior to satisfaction of the Mortgage equals, as of the date of the Prepayment:

(i) the unpaid principal balance of the Mortgage Loan: plus

(ii) accrued interest to the date of the Prepayment; plus

(iii) unless waived or modified by the Agency, a prepayment penalty calculated in accordance with the terms of the Mortgage; and

(b) an Authorized Officer determines that after such Prepayment (whether total or partial), the Agency will remain in compliance with its Revenue Covenant.

The Agency may consent to the Prepayment of any Subordinate Mortgage Loan upon such terms as it, in its sole discretion, deems appropriate.

Insurance and Escrow. With respect to each Mortgage Loan, the Mortgage or an accompanying document shall require the Mortgagor:

(a) to procure and maintain fire and extended coverage insurance on the Development in amount as determined by the Agency, payable to the Agency as its interest may appear;

(b) to pay all taxes, special assessments and other lawful governmental charges with respect to the Development before they become delinquent, and all claims for work done and materials furnished with respect thereto before they are filed as liens on the Development, except during any period for which payment of part or all thereof may be deferred, with the written consent of and upon such terms as are specified by an Authorized Officer, for the purpose of contesting the same; and

(c) to make monthly Escrow Payments to the Agency or a Servicer or a Depository sufficient to accumulate funds for taxes and other governmental charges and insurance premiums.

Disbursements. Before the disbursements of a Mortgage Loan from Bond proceeds the Mortgagor shall have completed the Development and paid all costs thereof in a manner approved by an Authorized Officer, or shall have:

(a) obtained all governmental approvals required by law for the acquisition and construction of the Development;

(b) obtained written approval by an Authorized Officer of final plans and specifications for the Development and provided, if required, assurance and documentation of a nature and in an amount sufficient in the opinion of an Authorized Officer, securing performance of the work in accordance therewith, provided that no disbursement of construction costs shall be made until such approval is given and such assurance furnished;

(c) deposited with the Trustee or a Depository cash or an irrevocable letter of credit or other valuable consideration satisfactory to an Authorized Officer, in any amount by which the cost of the Development as estimated by the Agency exceeds the authorized amount of the Mortgage Loan.

The Agency may impose additional disbursement requirements, or modify the foregoing requirements, to the extent required to comply with the rules, regulations or procedures of any agency or instrumentality of the United States guaranteeing, insuring or otherwise participating in the making of a Mortgage Loan or the repayment thereof.

Alienation. Except as provided below, with respect to each Mortgage Loan, the Mortgage shall not permit the sale, lease or encumbrance of the Development without the written consent of the Agency, by its Authorized Officer, which consent may be given (but need not be given) only in the cases of:

(a) receipt of full Prepayment conforming to the requirements stated below;

(b) grant of easements, licenses or rights-of-way over, under or upon the site of the Development which, in the opinion of the Officer, do not destroy or diminish its usefulness for the purpose intended;

(c) lease of the Development or a part thereof to a third party for the purpose of operation, provided that such lease is permitted by law and is subject to all of the terms, provisions and limitations of the Mortgage;

(d) sale or exchange of any improved or unimproved land which in the opinion of an Authorized Officer is not needed for the efficient operation of the Development, provided that an appraisal acceptable to the Agency is received showing that the Development, subsequent to such release, has an appraised value not less than 110% of the outstanding principal balance of the Mortgage;

(e) sale to another eligible Mortgagor approved by resolution of the Agency, who assumes all obligations of the original Mortgagor under the Mortgage and accompanying documents; in which case the Agency may release the original Mortgagor unless otherwise provided in the Mortgage;

(f) grant of a parity mortgage lien on the Development or a portion thereof if such parity mortgage lien is given to secure financing for the expansion, improvement or renovation of the Development or portion thereof; or

(g) grant of a subordinate mortgage lien on the Development or a portion thereof.

Enforcement. The Agency shall diligently enforce, and take all reasonable steps, actions and proceeding necessary for the enforcement, of all terms, covenants and conditions of Mortgages securing Mortgage Loans made by the Agency, including the prompt collection of Mortgage repayments and fees and charges and other Revenues.

Whenever it shall be necessary in order to protect and enforce the rights of the Agency under a Mortgage securing a Mortgage Loan and to protect and enforce the rights and interests of Bondholders under the Bond Resolution, the Agency shall commence foreclosure proceedings against each Mortgagor in default under the provisions of a Mortgage, shall bid for and purchase the Development covered by such Mortgage at the foreclosure or other sale thereof and shall acquire and take possession of such Development.

Upon foreclosure of a Mortgage securing a Mortgage Loan, or upon acquisition of the Development in lieu of foreclosure of a Mortgage in default, and so long as the Agency shall have title to or be in possession of the Development, the Agency shall, as the case may be, construct, operate and administer such Development in the place and stead of the Mortgagor in such manner as the Agency reasonably determines is in the best interests of the Bondholders. In so doing, the Agency, to the extent it may have money available for such purpose, including any money on deposit in the Mortgage Loan Account relating to the Development, may complete the construction and development thereof if not already completed in such manner as the Agency reasonably determines is in the best interests of the Bondholders. From money provided by the Agency from the ownership and operation of the Development, to the extent such money is sufficient for the following purposes, the Agency shall first pay or make provision for payment of the costs and expenses of taxes, insurance, foreclosure fees, including appraisal and legal fees and similar expenses required to preserve or acquire unencumbered title to the Development, and after providing currently for these expenses shall pay the cost and expenses of operating the Development, including the repayments which the Mortgagor was obligated to pay pursuant to the terms and provisions of the Mortgage. The Trustee or other Depository of the Mortgage Loan Account established with respect to any Development foreclosed or otherwise acquired by the Agency prior to its completion shall be authorized to pay to the Agency upon its requisition any amount on deposit in the Mortgage Loan Account, upon receipt of an Officer's Certificate that such amount is required to pay an item that would have been included in the cost of the Development had the Agency not acquired the same. If the Agency determines that completion of the Development is not in the best interests of the Bondholders, the remaining funds in any such Mortgage Loan Account shall be disposed of in the same manner as set forth in the Bond Resolution for funds remaining in a Mortgage Loan Account upon completion of a Development or cancellation of a commitment to make a Mortgage Loan for a Development.

Upon or after foreclosure of a Development under a Mortgage securing a Mortgage Loan, or acquisition thereof from the Mortgagor in lieu of foreclosure:

(a) the Agency may resell the Development to an eligible Mortgagor and make a Mortgage Loan with respect thereto as if such eligible Mortgagor were the original Mortgagor, subject to all of the terms, provisions, conditions and limitations contained in this section and "Program Covenants" below; or the Agency may sell the Development to a party other than an eligible Mortgagor;

(b) the Agency shall not resell the Development for a price less than its fair market value as reasonably determined by the Agency through a solicitation of bids for the purchase of the Development or by an appraiser or other real estate consultant selected by the Agency and acceptable to the Trustee;

(c) subsequent to such sale the Agency must remain in compliance with its Revenue Covenant under the Bond Resolution; and

(d) all proceeds from the sale of any Development shall be considered a Recovery Payment and shall be deposited in the Suspense Account in the Redemption Fund.

The foregoing provisions regarding foreclosure of mortgages shall not apply to Mortgages securing Subordinate Mortgage Loans, and the Agency may proceed to protect and enforce the rights of the Agency under a Mortgage securing a Subordinate Mortgage Loan in such manner as the Agency, in its sole discretion, deems appropriate.

Modification. Except as otherwise permitted by the terms of the Bond Resolution, the Agency shall not consent to the modification of the security for or any terms or provisions of any Mortgage Loan or the Mortgage securing the same in a manner materially detrimental to Bondholders. No reduction in the interest rate or schedule of payments will be made which would result in a failure by the Agency to comply with its Revenue Covenant. Notwithstanding the foregoing, the Agency may consent to the modification of the terms of any Subordinate Mortgage Loan or Mortgage securing such loan in any manner and to any extent the Agency, in its sole discretion, deems appropriate.

Sale. The Agency may sell any Mortgage or other obligation securing a Mortgage Loan provided that after such sale an Authorized Officer determines the Agency will remain in compliance with its Revenue Covenant. The Agency may sell any Mortgage or other obligation securing a Subordinate Mortgage Loan upon such terms and conditions as the Agency, in its sole discretion, deems appropriate.

Program Covenants—Revenue Covenant

The Agency shall from time to time, with all practical dispatch and in a sound economical manner consistent in all respects with the Act as then amended and in effect and with the provisions of the Bond Resolution, use and apply the proceeds of the Bonds, to the extent not required by the Bond Resolution for other Program purposes, to make Mortgage Loans pursuant to the Act and the Bond Resolution, and shall do all such acts and things as are necessary to receive and collect Revenues, Prepayments, Recovery Payments and Escrow Payments, consistent with sound practices and principles, and shall diligently enforce and take all steps, actions and proceedings reasonably necessary in the judgment of the Agency for the enforcement of all terms, covenants and conditions of the Mortgage Loans. The Agency shall also take all steps, actions and proceedings reasonably necessary in the judgment of the Agency for the enforcement of all terms, covenants and conditions of Subordinate Mortgage Loans.

There shall at all times be scheduled payments of principal and interest on Mortgage Loans pledged under the Bond Resolution which, when added to any other legally enforceable payments on Mortgage Loans or with respect to the Bond Resolution, and interest and other income estimated by the Agency to be derived from the investment or deposit of moneys available therefor in any Fund or Account created by the Bond Resolution, will be sufficient to pay the Principal Installments of and interest on all Outstanding Bonds (excluding from such calculations all amounts scheduled to be received pursuant to the provisions of Subordinate Mortgage Loans).

The Agency reserves the right:

(a) at the time of issuance of any Series of Bonds for the purpose of repaying notes or Bonds the proceeds of which were used to make a Mortgage Loan, to consent to a reduction of the interest on that Mortgage Loan, provided that the Agency will then be in compliance with the preceding paragraph;

(b) at any time, to forgive a portion of the interest on a Mortgage Loan by consenting to the establishment of scheduled payments of principal and interest lower than those required to amortize the Mortgage Loan during its then remaining term at the agreed interest rate, provided that (i) the scheduled payments of principal and interest on all Mortgage Loans, giving effect to that and all similar reductions then in effect, will in the aggregate be sufficient to comply with the preceding paragraph, and (ii) if it is subsequently determined by an Authorized Officer that such aggregate scheduled principal and interest payments will or may be insufficient for such compliance, such forgiveness may be terminated in whole or in part with respect to subsequent payments on that Mortgage Loan; and

(c) to consent to any modifications to a Subordinate Mortgage Loan, including forgiving all or a portion of principal thereof or interest thereon, as the Agency may determine in its sole discretion. The Agency reserves the right to withdraw any amount from its General Reserve Account and deposit it in the Bond Fund in payment and satisfaction of a corresponding amount of the scheduled principal or interest payments on any Mortgage Loan. The Agency shall be entitled to recover from the Mortgagor any amounts so advanced, together with interest thereon at the rate payable on the Mortgage Loan, or to enforce its right to such recovery under the Mortgage, but only after all other defaults thereunder have been cured.

Deposit of Revenues and Other Money

The Agency will collect and deposit or will require a Servicer to collect and deposit with the Trustee or a Depository, on the date of receipt so far as practicable, all Revenues, Prepayments, Recovery Payments and Escrow Payments receivable from Mortgagors, and will forward or require the Depository to forward promptly to the Trustee statements of each amount deposited except Escrow Payments. The Trustee shall be accountable only for moneys actually so deposited, other than Escrow Payments. All moneys so deposited shall be apportioned by the Agency or Servicer and paid into and credited on the books of the Depository and the Trustee as follows:

(a) Revenues to the Revenue Fund:

(b) Prepayments and Recovery Payments to the Redemption Fund; and

(c) Each Escrow Payment to an Escrow Account separately held by the Depository or the Agency.

Revenue Fund

As of the first and on or before the tenth day of each month after the first delivery of Bonds, from any moneys in the Revenue Fund then held by the Trustee and Depositories, the Trustee shall withdraw and pay into each of the following Funds the amount indicated in the following tabulation, or so much thereof as remains after first crediting to each Fund preceding it in the tabulation the full amount indicated for that Fund:

(a) to the Bond Fund (and such separate Accounts therein as may be designated by one or more Series Resolutions), the amount needed to increase the aggregate balance therein to the Bond Requirement;

(b) to the Debt Service Reserve Fund (and such separate Accounts therein as may be designated by one or more Series Resolutions), the amount needed to increase the aggregate balance therein to the Debt Service Reserve Requirement;

(c) to an Account in the Revenue Fund held by the Trustee at its Principal Office, the additional amount needed to make each of the payments which will be required under the foregoing clauses (a) and (b) to be made as of the first day of the following month:

(d) to the Expense Fund, the amount then required to increase the balance therein to the Expense Requirement (provided that the Agency may elect to receive the Expense Requirement from time to time by payment directly from the Revenue Fund upon providing the Trustee with an Officer's Certificate as provided in the Bond Resolution); and

(e) when authorized by an Officer's Certificate, the Trustee may credit Revenues to the Bond Fund (and such separate Accounts therein as may be designated by one or more Series Resolutions) upon receipt, up to the amount of the current Bond Requirement, and in excess of that requirement if the current Debt Service Reserve and Expense Requirements, if any, have been met. In the event that on any Interest Payment Date, after payment of all interest and Principal Installments then due, the amounts in all Funds and Accounts referred to in clauses (a) to (d) equal or exceed the Requirements applicable thereto, any amount then on hand in the Revenue Fund and any Revenues thereafter received in excess of the current requirements of all of said Funds and Accounts may be transferred to the Agency's General Reserve Account, and shall be so transferred upon request in writing by an Authorized Officer; provided that no such transfer shall be made unless, after giving effect to such transfer, total assets of the Bond Resolution shall exceed total liabilities, determined in accordance with generally accepted accounting principles and evidenced by an Officer's Certificate.

Bond Fund

(a) The Trustee shall withdraw from the Bond Fund, prior to each Interest Payment Date an amount equal to the unpaid interest due on the Outstanding Bonds on or before that date, and shall cause it to be applied to the payment of said interest when due, or shall transmit it to one or more Paying Agents who shall apply it to such payment as provided in Series Resolutions.

(b) If the withdrawals required under (a) above on the same and every prior date have been made, the Trustee shall withdraw from the Bond Fund, prior to each Principal Installment Date and Sinking Fund Installment Date, an amount equal to the principal amount or Accreted Value of the outstanding Bonds, if any, maturing or subject to mandatory redemption on or before that date and shall cause it to be applied to the payment of the principal or Accreted Value of said Bonds when due or transmit it to Paying Agents who shall apply it to such payment.

(c) Each withdrawal from the Bond Fund under (a) and (b) above shall be made not earlier than five (5) days prior to the Interest Payment or Principal Installment Date or Sinking Fund Installment Date to which it relates, and the amount so withdrawn shall be deemed to be part of the Bond Fund until the Interest Payment Date or Principal Installment Date or Sinking Fund Installment Date.

(d) The Trustee shall apply money in the Bond Fund to the purchase or the redemption of Outstanding Term Bonds subject to mandatory redemption in the manner provided in this paragraph and Section 702 of the Bond Resolution, provided that no such Bond shall be purchased during the period of thirty (30) days next preceding the Date of a Sinking Fund Installment established for such Bonds. The price paid by the Trustee (excluding accrued interest but including any brokerage and other charges) for any Bond purchased pursuant to this paragraph shall not exceed the Redemption Price applicable on the next date on which such Bond could be redeemed in accordance with its terms as part of a Sinking Fund Installment. Subject to the limitations set forth and referred to in this paragraph, the Trustee shall purchase Bonds at such times, for such prices, in such amounts and in such manner (whether after advertisement for tenders or otherwise) as the Agency may determine in an Officer's Certificate furnished to the Trustee.

(e) As soon as practicable after the forty-fifth and before the thirtieth day prior to the Date of each Sinking Fund Installment, unless a different notice period is required by the applicable Series Resolution, the Trustee shall call for redemption on that date the principal amount or Accreted Value of the remaining Bonds entitled to said Installment, and on that date the Trustee shall apply the money in the Bond Fund to the payment of the Redemption Price of the Bonds so called for redemption.

(f) No amount is to be withdrawn or transferred from or paid out of the Bond Fund except as described in this Section.

Debt Service Reserve Fund

(a) If at any time there is not a sufficient amount in the Bond Fund to provide for the payment when due of Principal Installments of and interest on the Outstanding Bonds, the Trustee shall withdraw from the Debt Service Reserve Fund and pay into the Bond Fund the amount of the deficiency then remaining. The Trustee shall notify the Agency in writing ten (10) days prior to any such withdrawal from the Debt Service Reserve Fund.

(b) In addition to the payments made into the Debt Service Reserve Fund pursuant to Section 404 of the Bond Resolution or otherwise, the Agency shall deposit in the Debt Service Reserve Fund any money appropriated and paid to the Agency by the State pursuant to the Act for the purpose of restoring the Debt Service Reserve Fund to the Debt Service Reserve Requirement.

(c) If as of the first day of any month the amount in the Debt Service Reserve Fund exceeds the Debt Service Reserve Requirement, the Trustee within ten (10) days thereafter shall withdraw any amount therein in excess of the Debt Service Reserve Requirement, and pay the same into the Revenue Fund.

(d) The Agency shall at all times maintain the Debt Service Reserve Fund and will do and perform or cause to be done and performed each and every act and thing with respect to the Debt Service Reserve Fund provided to be done or performed by or on behalf of the Agency or the Trustee under the terms and provisions of Article IV of the Bond Resolution and of the Act.

(e) In order to better 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 8 of the Act, the Agency shall cause the Chairperson, annually, on or before December 1 of each year, to make and deliver to the Governor of the State a certificate stating (a) the amount, if any, that is necessary to restore the Debt Service Reserve Fund to an amount equal to the Debt Service Reserve Requirement (but not exceeding the maximum amount of principal and interest to become due and payable in any subsequent year on all Bonds and Notes which are then Outstanding and secured by the Debt Service Reserve 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 into the Revenue Fund 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 the Debt Service Reserve Fund. All moneys received by the Agency from the State in accordance with the provisions of Section 22, Subdivision 8 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 or Revenue Fund, as provided in the Bond Resolution.

(f) No amount is to be withdrawn from or paid out of the Debt Service Reserve Fund except as described in this Section.

Expense Fund

(a) Money deposited in the Expense Fund, if any, shall be disbursed for the payment of continuing expenses of the Program (including operating and maintenance expenses of Developments in the possession of the Agency) upon receipt of an Officer's Certificate stating the name of the party to be paid, the amount to be paid and the purpose of the payment.

(b) Income received or other money held in the Expense Fund in excess of the Expense Requirement shall be credited by the Trustee to the Revenue Fund.

(c) No amount is to be withdrawn, transferred or paid out of the Expense Fund except as described in this Section.

Redemption Fund

(a) The Trustee shall establish a Suspense Account in the Redemption Fund, to which it shall credit all Prepayments and Recovery Payments, and all surplus amounts transferred from Mortgage Loan Accounts under Section 307(G) of the Bond Resolution; each of which shall be used and applied as directed by an Officer's Certificate, either (i) to provide additional funds to a Mortgage Loan Account for an increase in the amount of a Mortgage Loan authorized by the Agency, or (ii) for the establishment of one or more Mortgage Loan Accounts for new Mortgage Loans made by the Agency, or (iii) for the purchase or redemption of Outstanding Bonds; provided that as of the first day of each month while any Prepayment or Recovery Payment is held in the Suspense Account, the Trustee shall transfer from that Account to the Bond Fund the scheduled monthly payment of principal of the Mortgage Loan with respect to which the Prepayment or Recovery Payment was received, less the amount of any payment of principal actually received with respect to such Mortgage Loan, if such transfer is required in order to meet the Bond Requirement.

(b) By Officer's Certificate the Agency may authorize the increase of any Mortgage Loan or the making of a new Mortgage Loan as contemplated above, and for that purpose may appropriate any money at the time available in or transferred to the Redemption Fund in accordance with the provisions of Article IV of the Bond Resolution to one or more designated Mortgage Loan Accounts for disbursement pursuant to Section 307 of the Bond Resolution. Upon the filing with the Trustee of the Officer's Certificate, the Trustee shall withdraw from the Redemption Fund and deposit the amount authorized in each Mortgage Loan Account designated in the Certificate.

(c) Upon receipt of the Officer's Certificate referred to in Section 702 of the Bond Resolution, the Trustee shall apply money in the Redemption Fund not otherwise applied in accordance with paragraphs (a) and (b) above to the purchase of Bonds designated in the Certificate at the most advantageous price obtainable with due diligence. Bonds not so purchased may be redeemed at a Redemption Price determined by Series Resolution at the time and in the manner provided in Article VII of the Bond Resolution. Bonds shall not be purchased pursuant to this paragraph during the period of forty-five (45) days next preceding a redemption date from money to be applied to the redemption of Bonds on such date.

(d) Notwithstanding the foregoing, any Prepayment or Recovery Payment received with respect to a Subordinate Mortgage Loan may be used and applied, as directed by an Officer's Certificate, in such manner as the Agency, in its sole discretion, may determine.

(e) Income from the investment of the Redemption Fund shall be credited as received to the Revenue Fund.

(f) No amount is to be withdrawn or transferred from or paid out of the Redemption Fund except as described above.

Escrow Accounts

Escrow Payments received by the Agency or a Servicer, whether separately or as part of some other payment, shall be deposited in an Escrow Account and shall be promptly applied by the Agency or Servicer to the purpose for which such payments were received, and any such payments received by the Trustee or a Depository, whether separately or as part of some other payment, shall immediately be paid to the Agency and applied by the Agency to the purpose for which they were received.

General Reserve Account

All amounts authorized in Article IV of the Bond Resolution to be withdrawn from the Revenue Fund and deposited in the General Reserve Account of the Agency shall be free and clear of any lien or pledge created by the Bond Resolution and may be used for any purpose authorized by the Act, subject to the provisions of Section 102, clauses (6) and (7) of the Bond Resolution.

Investment and Deposit of Funds

(a) Subject to instructions from time to time received from an Authorized Officer (which need not be in writing), and with the objective of assuring the maximum yield reasonably possible on money held in each Fund, each Fiduciary shall keep all money held by it invested and reinvested, as continuously as reasonably possible, in Investment Obligations defined in Section 103 of the Bond Resolution (including interest-bearing time deposits and certificates of deposit). All Investment Obligations shall mature or be redeemable (at the option of the holder) and bear interest payable at the times and in the amounts estimated to be necessary to provide funds for Mortgage Loan disbursements and for the payment of the principal and Accreted Value of and interest and premium, if any, on Bonds when due or when scheduled for redemption pursuant to applicable Series Resolutions. The maturity date of a security purchased under a repurchase agreement shall be deemed to be the agreed repurchase date. The maturity date of a time deposit or certificate of deposit shall be deemed to be any date on which, with such notice as may be required, the deposit may be withdrawn without loss of interest.

(b) Money in separate Funds may be commingled for the purpose of investment or deposit, subject to instructions from an Authorized Officer, to the extent possible in conformity with the provisions of paragraph (a) of this Section. Moneys in separate funds or series accounts may be invested in common trust funds or pools of which such money forms a part pursuant to the terms of which each Fund or Series C Account is allocated a share of a pooled security proportionate to the amount contributed to the purchase price of the pooled security, subject to the provisions of paragraph (a) of this Section and to the restrictions on Investment Obligations imposed by each Series Resolution. Investments shall be sold at the best price obtainable, and amounts held in certificates of deposit or time deposits shall be withdrawn, whenever necessary in order to make any disbursement or repurchase of Mortgage Loans, payment of expenses of debt service. Investment Obligations need not be disposed of to make required transfers from one Fund or Account to another, but one or more Investment Obligations or portions thereof may be transferred in lieu of cash.

(c) Subject to approval by an Authorized Officer, the Trustee or another Fiduciary may apply money pertaining to any Fund or Account created by or pursuant to the Bond Resolution to the purchase of Investment Obligations owned by it or its individual capacity, and may sell to itself in its individual capacity Investment Obligations held by it in any such Fund or Account as such Fiduciary.

Additional Bonds

The Bond Resolution provides that after authorization by a Series Resolution and compliance with such requirements as are set forth therein, Bonds of any Series may be delivered upon the following, among other, conditions:

The Agency shall furnish to the Trustee:

(a) copies of the Bond Resolution and the applicable Series Resolution, certified by an Authorized Officer;

(b) a Counsel's Opinion that:

(i) the Bond Resolution and the applicable Series Resolution have been duly adopted by the Agency and are valid and binding upon it and enforceable in accordance with their terms;

(ii) the Bond Resolution creates the valid pledge which it purports to create; and

(iii) the principal amount of the Bonds to be issued and other obligations theretofore issued by the Agency does not exceed any legal limitation; and

(c) an Officer's Certificate stating:

(i) the amounts to be deposited in all Funds and Accounts;

(ii) that the issuance of the Bonds will have no material adverse effect on the ability of the Agency to pay the Principal Installments of and interest on all Bonds (including the Outstanding Bonds and the Bonds then to be issued);

(iii) that after such issuance there will be scheduled payments of principal and interest on Mortgage Loans then held by the Agency or to be made or purchased by the Agency from the proceeds of such Series of Bonds (or from the proceeds of Notes paid or to be paid from the proceeds of the Bonds) which, with any other legally enforceable payments with respect to such Mortgage Loans or with respect to the Bond Resolution, with interest or other income estimated by the Agency to be derived from the investment or deposit of money available therefor in all Funds and Accounts created by the Bond Resolution, will be sufficient to pay the Principal Installments of and interest on the Bonds then Outstanding and the additional Series of Bonds (excluding from such calculations amounts to be received by the Agency pursuant to any Subordinate Mortgage Loans); and

(iv) that the balance in the Debt Service Reserve Fund immediately prior to the issuance of such Bonds is not less than the Debt Service Reserve Requirement computed with reference to the Outstanding Bonds (except Outstanding Bonds which are to be refunded by the additional Bonds).

The Trustee shall determine and certify:

(a) that it is has received the documents listed above; and

(b) that the amount of Bond proceeds to be deposited in the Debt Service Reserve Fund is sufficient to increase the amount in the Fund to the Debt Service Reserve Requirement effective after the issuance of the Bonds, as computed by the Trustee.

Amendments of the Bond Resolution

Amendments of or supplements to the Bond Resolution may be made by a Supplemental Bond Resolution (a "Supplemental Resolution").

Supplemental Resolutions may become effective upon filing with the Trustee if they add restrictions on the Agency, add covenants by the Agency, surrender privileges of the Agency, authorize additional Bonds and fix the terms thereof or affect only Bonds not yet issued.

Supplemental Resolutions become effective upon consent of the Trustee if they concern only curing or clarifying an ambiguity, omission, defect or inconsistency, or make any other change which, in the judgment of the Trustee, is not prejudicial to the Trustee and which does not adversely affect the interests of Bondholders. Other Supplemental Resolutions become effective only with consent of the Holders of at least a majority in principal amount and Accreted Value of the Outstanding Bonds affected thereby.

However, no amendment shall permit a change in the terms of redemption or maturity of any Outstanding Bond or of any installment of interest thereon or a reduction in the principal amount or Accreted Value thereof or the Redemption Price thereof or the rate of interest thereon without the consent of the Holder of such Bond, or shall reduce the percentage of the Holders the consent of which is required to effect any such amendment, without unanimous consent of the Bondholders.

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

Defeasance

If the Agency shall pay or cause to be paid to the Holders of the Bonds, the principal, Accreted Value and interest and Redemption Price, if any, to become due thereon, at the times and in the manner stipulated therein and in the Bond Resolution, then, unless there shall be an Officer's Certificate delivered to the Trustee to the contrary, the pledge of the Revenues, Prepayments, Recovery Payments and other moneys, securities and funds pledged by the Bond Resolution and the covenants, agreements and other obligations of the Agency to the Bondholders thereunder shall be discharged and satisfied.

Bonds and interest thereon for the payment or redemption of which moneys shall have been deposited with the Trustee shall be deemed to have been paid, provided that, if any of such Bonds are to be redeemed prior to the maturity thereof, provision satisfactory to the Trustee shall have been made for the giving of notice of redemption thereof. Moneys so held by the Trustee shall be invested by the Trustee, as directed by the Agency, in Investment Obligations which are direct obligations of the United States or guaranteed by the United States. If the maturing principal of such Investment Obligations and the interest to fall due thereon at least equal the amount of money required for the payment on any future date of the interest on and principal of or Redemption Price on such Bonds, the Bonds shall be deemed to have been paid.

Events of Default

Each of the following shall constitute an event of default under the Bond Resolution: (a) interest on any of the Bonds is not paid on any date when due, or the principal, Accreted Value or Redemption Price of any of the Bonds is not paid at maturity or at a Redemption Date at which the Bonds have been called for redemption; (b) Bonds subject to redemption by operation of Sinking Fund Installments shall not have been redeemed and paid in the amount required in the applicable Series Resolution on any date; (c) a default shall be made in the observance or performance of any covenant, contract or other provision in the Bonds, the Bond Resolution, or applicable Series Resolution contained and such default shall continue for a period of ninety (90) days after written notice to the Agency from a Bondholder or from the Trustee specifying such default and requiring the same to be remedied; or (d) certain acts of bankruptcy, insolvency or reorganization by the Agency.

Remedies

Upon the happening and continuance of an event of default, the Trustee may, and shall upon the request of the Holders of twenty-five percent (25%) in principal amount and Accreted Value of the Bonds then Outstanding affected by an event of default described in clause (a) or (b) of "Events of Default" above, or twenty-five percent (25%) in principal amount and Accreted Value of all Bonds then Outstanding if the event of default is one described in clauses (c) or (d) of "Events of Default" above, proceed to protect and enforce the rights of the Bondholders under the laws of the State of Minnesota or under the Bond Resolution. No Bondholder shall have the right to institute any proceedings for any remedy under the Bond Resolution unless the Trustee, after being so requested to institute such proceedings and offered satisfactory indemnity, shall have refused or neglected to comply with such request within a reasonable time and unless the proceeding is brought for the ratable benefit of all Holders of all Bonds. However, nothing in the Bond Resolution contained is intended to affect or impair the right of any Bondholder to enforce the payment of the principal or Accreted Value of and interest on his Bonds at the time and place expressed in the Bonds.

APPENDIX E

BOOK-ENTRY-ONLY SYSTEM

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 Series C Bonds. The ownership of one fully registered Series C 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 Series C Bonds, as nominee of DTC, references herein to the Bondholders, Holders or Registered Owners of such Series C Bonds shall mean Cede & Co. and shall not mean the Beneficial Owners of such Series C Bonds.*

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

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

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

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

Redemption notices will be sent to DTC. If less than all of the Series C 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 Series C Bonds of such maturity to be redeemed.

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

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

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

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

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

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

Discontinuation of Book-Entry System

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

APPENDIX F

OPINION OF BOND COUNSEL

DORSEY
DORSEY & WHITNEY LLP

FORM OF OPINION OF BOND COUNSEL

[To be dated the date of issuance of the Rental Housing Bonds, 2004 Series C]

Minnesota Housing Finance Agency
St. Paul, Minnesota

Re: Minnesota Housing Finance Agency
Rental Housing Bonds, 2004 Series C

Ladies and Gentlemen:

We have acted as bond counsel to the Minnesota Housing Finance Agency (the "Agency") in connection with the authorization, issuance and delivery by the Agency of its Rental Housing Bonds, 2004 Series C, in the aggregate principal amount of $80,000,000 (the "Series C Bonds"). The Series C Bonds are dated, mature on the dates, in the amounts, bear interest at the rates and are payable as set forth in the Series Resolution referenced below. The Series C Bonds are subject to redemption, including special redemption at par, prior to their maturity upon the terms provided in the Series Resolution.

As bond counsel, we have examined certified copies of resolutions and proceedings of the Agency and other documents we considered necessary for purposes of this opinion, including the Agency's Bond Resolution, MHFA No. 88-12, adopted February 25, 1988, as amended and supplemented (as so amended and supplemented, the "Bond Resolution"), the Series Resolution, adopted October 28, 2004 (the "Series Resolution") and the Closing and Tax Certificate of the Agency, dated the date hereof (the "Closing and Tax Certificate"). As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications furnished to us without undertaking to verify the same by independent investigation.

From such examination and assuming continuing compliance by the Agency and the owners of the Developments refinanced by the Series C Bonds with the covenants contained in the Bond and Series Resolutions, the Closing and Tax Certificate and the loan documentation relating to the Developments, it is our opinion that, under existing law as of the date hereof: (1) the Agency is a public body corporate and politic, having no taxing power, duly organized and existing under Minnesota Statutes, Chapter 462A, as amended; (2) the Bond Resolution and the Series Resolution have been duly adopted by the Agency and are valid and binding upon it in accordance with their terms, and create the valid pledge they purport to create with respect to the Mortgage Loans, Revenues, moneys, securities and Funds held and to be set aside under the Bond and Series Resolutions; (3) the Series C Bonds are duly and lawfully authorized to be issued and are valid and binding general obligations of the Agency in accordance with their terms, entitled to the benefits granted by and secured by the covenants contained in the Bond and Series Resolutions, and are 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, and federal or state laws heretofore or hereafter enacted appropriating particular funds for a specified purpose, but the State of Minnesota is not liable thereon and the Series C Bonds are not a debt of the State; (4) in the Bond Resolution the Agency has created a Debt Service Reserve Fund for the security of the Series C Bonds and other bonds issued or to be issued under the Bond Resolution, to be maintained in an amount specified therein, and has agreed to certify annually to the Governor the sum, if any, necessary to restore the Fund to this amount for inclusion in the next budget submitted to the Legislature, and the Legislature is legally authorized, but is not legally obligated, to appropriate such amount to the Fund; and (5) the interest payable on the Series C Bonds is not includable in gross income of owners thereof for federal income tax purposes or in taxable net income of individuals, trusts and estates for State of Minnesota income tax purposes, but such interest is includable in the income of corporations and financial institutions for purposes of the Minnesota franchise tax; provided that we express no opinion as to the exclusion from federal gross income and Minnesota taxable net income of interest on any Series C Bond for any period during which such Series C Bond is held by a person who is a "substantial user" of a Development refinanced by the Series C Bonds or a "related person" thereto, as such terms are defined in the Internal Revenue Code of 1986, as amended (the "Code").

Interest on the Series C 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 or disposition of the Series C Bonds. All owners of Series C Bonds (including, but not limited to, insurance companies, financial institutions, Subchapter S corporations, United States branches of foreign corporations and recipients of social security and railroad retirement benefits) should consult their tax advisors concerning other possible indirect tax consequences of owning and disposing the Series C Bonds.

Noncompliance by the Agency or the owners of the Developments refinanced by the Series C Bonds with their covenants in the Bond and Series Resolutions, the Closing and Tax Certificate or applicable loan documentation relating to the Developments, may result in inclusion of interest in federal gross income and Minnesota taxable net income retroactive to the date of issuance of the Series C Bonds.

It is to be understood that the rights of the holders of the Series C Bonds and the enforceability thereof, and of the Bond and Series Resolutions, may be subject to bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable and that their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

Dated: __________, 2004.

Respectfully yours,